
Appendix:

Strategic Water Resources Enhancement Case

YKY-PR24-DDR-41-CE-New-SRO-Enhancement-case-appendix



YorkshireWater

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1. Enhancement Case: Strategic Water Resources

1.1 Introduction

This appendix provides the enhancement case to support Yorkshire Water's representation for Strategic Water Resources as part of our draft determination response. It combines our response to Ofwat's Draft Determination plus other developments through engagement with the Regulators' Alliance for Progressing Infrastructure Development (RAPID) and other partners following submission of our Business Plan in October. A summary of the enhancement case is provided in [YKY-PR24-DDR-03 Cost Efficiency Part 2 - Water Enhancement Costs](#).

Section 1 of this document provides context and an overview of the enhancement case.

Section 2 sets out the need for the investment.

Section 3 details the proposed allowances and links to other enhancement cases.

1.2 Overview

Yorkshire Water's Strategic Resource Options (SRO) programme has evolved significantly since submission of our business plan in October 2023. This is due to developments in the requirement for (and feasibility of) strategic supply-side solutions linked to company and regional water resources planning, informed by ongoing engagement with regulators and other water companies (see Section 2 for context).

Our October 2023 submission did not explicitly include enhancement allowances in the SRO data tables. At this point in time only one major supply-side solution, York Water Treatment Works (WTW)¹, was proposed for development in AMP8 exclusively in the DPC / SUP12 data tables. The allocation of costs to these tables reflected uncertainty in the delivery model for this 'Backfill' solution at the time of submission which we have sought to clarify in Section 3.1 of this appendix.

In the January 2024 resubmission of our data tables, following engagement with RAPID, we included proposed costs for a new Kielder Transfer SRO.

Ofwat has provided its Draft Determination on the York WTW (Backfill SRO) DPC allowance². Following further developments on the Backfill solution during AMP7 we have since engaged with RAPID on the expansion of this SRO to include alternative options (see **Section 3.1**). In addition, we have also requested an enhancement allowance under the supply-demand balance for enabling water quality investigations necessary to support the Backfill solution, set out separately in Section 4 of our Expenditure allowances – Water representation ([YKY-PR24-DDR-03](#)).

Ofwat has also provided its draft determination on the Kielder Transfer SRO. Our representation is summarised in **Section 3.2**, with further detail provided separately in Section 7 of our Expenditure allowances - Water representation ([YKY-PR24-DDR-03](#)).

Finally, alongside Severn Trent Water we have engaged with RAPID in relation to a multi-sector mine water treatment solution in Nottinghamshire which, if feasible, could provide a novel, best value solution, contributing to regional water resources resilience. Although not formally included in our draft plan, at Draft Determination Ofwat has signalled its intent to support this project subject to further information. Our proposal for this new SRO is set out in **Section 3.3**.

¹ York WTW was the solution name stated in the SUP12 data table, but these were effectively proposed costs to develop the 'Backfill' SRO comprising a treated water transfer from York to South Yorkshire.

² We note that Ofwat's draft determination also referenced implementation of Chellow WTW through DPC. Our representation on Chellow WTW is considered separately under the Water Resilience driver (Section 13) [YKY-PR24-DDR-41-CE-New-SRO-Enhancement-case-appendix](#)

2. Need for the Investment

2.1 Strategic water resources context

Yorkshire Water did not propose any SROs at PR19. This reflected the water resources position at Water Resources Management 2019 (WRMP19), which was that a supply-demand surplus could be maintained through the planning period with demand-side solutions only. Following the emergence of new drivers in WRMP24 (notably the requirement nationally to plan for 1:500-year drought resilience and abstraction reductions to support long-term environmental destination) and the increasing role of regional water resources planning, new strategic supply solutions are now required in both our core and adaptive WRMP pathways as soon as 2035. The requirement for new large water supply infrastructure early in the WRMP planning period is principally linked to two drivers:

2.1.1 Termination of the Upper Derwent Valley import to South Yorkshire

Yorkshire Water has a bulk supply agreement to receive up to 21,550Ml/year from Severn Trent Water's Upper Derwent Valley (UDV) reservoirs in Derbyshire. The bulk import supports Yorkshire Water's Rivelin Water Treatment Works which supplies parts of South Yorkshire. Yorkshire Water is entitled to between 35Ml/d and 68Ml/d depending on storage and the average daily import is approximately 50Ml/d. The agreement expires in 2084 but allows for either party to cease the transfer from 2035 provided notice is given no later than 2030. In its WRMP24 Severn Trent Water confirmed that to support their own long-term water resources needs, they intend to terminate the bulk supply agreement in 2030, effective from 2035. This decision sets out the underlying need for investment.

2.1.2 Reductions to existing licensed abstractions on the River Derwent in East Yorkshire

Yorkshire Water's WRMP24 core pathway assumes licensed abstraction reductions in excess of 100Ml/d from our East Yorkshire River Derwent sources in 2040 under Habitats Regulations drivers. This is linked to achieving Common Standards Monitoring Guidance (CSMG) flow requirements in protected areas and is consistent with Ofwat's Common Reference Scenario approach. The scale of loss will be determined by an AMP8 WINEP investigation in support of WRMP29.

2.2 WRMP24 Supply solutions and adaptive planning

At the time of submitting our draft determination representation, Yorkshire Water WRMP24 was awaiting confirmation from Defra to publish the final WRMP24. Our revised Draft WRMP24 core plan identifies two strategic water resources solutions to address the two main drivers:

1. River Ouse treated water transfer to South Yorkshire to 'Backfill' the loss of the UDV import in 2035 (50Ml/d benefit)³
2. Tees (Kielder) Transfer to offset the loss of abstraction reductions on the River Derwent in East Yorkshire (140Ml/d benefit)

Under both adaptive pathway 2 (high environmental destination) and adaptive pathway 5 (underachieving demand reduction) in the revised draft WRMP24, a further strategic solution - the Aire and Calder new source and treatment - is also required by 2039. Subject to feasibility, this solution could also serve as an alternative UDV 'backfill' in the core plan by 2035 should the River Ouse source be unavailable.

An overview of these solutions, plus the additional solutions described below, is shown in Figure 2.1. A corresponding programme for the SRO programme (2024 – 2040) is shown in Figure 2.2 and further described in sections 2.2.1 – 2.2.3.

In summary, our SRO programme is based on three major projects. We propose these as a portfolio of projects to support the development and delivery of our WRMP through AMP8 and beyond:

³ WRMP Option code DV8 (York WTW to South Yorkshire)
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1. **South Yorkshire Sources** (*previously referred to as the UDVRE Backfill SRO/York WTW*): in-region solution to offset the loss of a bulk supply to Yorkshire in 2035. A total of 4 sub-options are proposed for initial development (see Section 2.2.1)
2. **Kielder Transfer**: inter-company transfer (recipient) to offset loss of supply under protected sites drivers by 2040 (see Section 2.2.2)
3. **Nottinghamshire Minewater Treatment**: Novel, cross-sector solution to treat minewater to public supply in either Yorkshire Water or Severn Trent Water's grid (see Section 2.2.3).

2.2.1 South Yorkshire Sources SRO (previously referred to as UDVRE Backfill SRO/York WTW)

In 2022, we commenced a new SRO with Severn Trent Water to explore the expansion of the UDV reservoirs (UDVRE SRO), which would investigate options to increase storage in the UDV, mutually benefitting both companies by increasing water supply to meet long-term needs. However, due to regulator and stakeholder concerns around the environmental/heritage impacts associated with UDVRE, in July 2023 RAPID confirmed that it could no longer support the development of UDVRE beyond Gate 2.

Following RAPID's decision not to progress with UDVRE options, Yorkshire Water had agreed to progress with a 'backfill only' SRO focussing on the River Ouse treated water transfer option identified in Yorkshire Water's WRMP core pathway. This solution would therefore offset the loss of the UDV import and ensure Yorkshire Water WRMP24 levels of service could be maintained beyond 2035.

The source utilised for River Ouse treated water transfer is subject to an ongoing AMP7 WINEP investigation under a Water Framework Directive (WFD) No Deterioration driver, which has identified significant uncertainty in the sustainability of abstraction relating to WFD hydrological regime plus storm overflow reduction plan requirements under the Environment Act. To ensure the development and implementation of a feasible 'backfill' solution by 2035, we have proposed to include an additional three supply options for consideration in Gate 2 of the Backfill SRO. We have proposed to RAPID that this solution is renamed South Yorkshire Sources 'SYS' to reflect the change in scope.

We have engaged directly with RAPID on this proposal and anticipate progression of the re-scoped SYS in AMP7 / continued into AMP8. This SRO will therefore:

- accelerate solution development to ensure a replacement source is implemented no later than 2035.
- consider candidate solutions more local to South Yorkshire with potentially improved environmental, water resources and resilience credentials when compared to the River Ouse treated water transfer option.
- explore a more rounded, holistic approach to offsetting the loss of the UDV import (alongside the Nottinghamshire Minewater SRO), which is in the interests of both customers and the environment.

A summary of the options to be considered in SYS is summarised below in Table 2.1. We consider that all these options meet the suitability criteria for enhancement funding and have provided justification for this in Section 2.3.1.

Table 2-1: South Yorkshire Sources Candidate Solutions

Solution	Description
River Ouse Treated Water Transfer to South Yorkshire	New WTW near York (supported by increased abstraction from River Ouse utilising headroom in an existing abstraction license) plus a treated water transfer to South Yorkshire. This is the option included in Yorkshire Water’s core WRMP24 plan for 2035.
Aire and Calder new river sources ⁴	Two new river abstractions and treatment infrastructure to provide alternative supply to South Yorkshire. This solution is included in Yorkshire Water’s WRMP24 adaptive pathways (enhanced environmental destination and under-achieved demand reduction) in 2039. However given the increased uncertainty in River Ouse license availability, these sources are now considered as potential alternatives earlier in the planning period to offset the loss of the UDV import by 2035.
Doncaster Wellfield Sources and MAR	Development of under-utilised and / or new groundwater sources in the Doncaster Wellfield, plus potential application of Managed Aquifer Recharge (MAR). These options were initially developed as WRMP24 options but could not be included in WRMP24 due to ongoing AMP7 WINEP investigations. As these investigations are now reaching a conclusion, we consider these as potential alternatives to the River Ouse treated water transfer. They also have potential to deliver significant benefits alongside the Nottinghamshire Minewater solution given the close geographical proximity.
River Don new sources including indirect reuse.	New river abstraction on the River Don, with indirect and direct reuse scenarios for consideration.

We anticipate completion of SYS SRO Gate 2 by June 2026, at which point a candidate solution(s) would be taken forward into Gate 3 in agreement with RAPID. We anticipate completion of Gate 3 by June 2028 to coincide with:

- Draft regional and WRMP29 plans submitted with high confidence in deliverability of proposed best value solutions.
- Confidence in the sustainability of the River Ouse licences (informed by water quality modelling investigations as set out in Section 4 of our Expenditure allowances - Water representation ([YKY-PR24-DDR-03](#))).
- Confidence in the magnitude of loss from River Derwent sources under protected site drivers, which has significant implications for the configuration of Yorkshire Water’s conjunctive grid system.

2.2.2 Kielder Transfer SRO

The Tees Transfer solution is required by Yorkshire Water in 2040, contingent on the outcome of a WINEP investigation concluding in December 2026. The solution comprises of a large (partially treated) water transfer pipeline to a WTW near York, with further treatment and onward distribution through Yorkshire Water’s conjunctive use grid. The source of supply to the import would be utilised from the River Tees via regulation releases under an existing Kielder Transfer Agreement. The-lead in time for this solution has been estimated at 13 years and therefore development of the solution through AMP8 is necessary.

Following engagement with RAPID, a Kielder Transfer SRO has been included in our AMP8 SRO proposal, in collaboration with Northumbrian Water and United Utilities. Gates 1 and 2 of the SRO will focus on both the Yorkshire Water (Tees Transfer) and United Utilities⁵ variants of a Kielder Transfer. Given that the Tees Transfer is included in Yorkshire Water’s core pathway, our proposal assumes that only this solution will be taken forward beyond completion of Gate 2 (anticipated September 2027).

Further information on our draft determination representation for Kielder is provided in Section 7 of our Expenditure allowances – water representation ([YKY-PR24-DDR-03](#)).

⁴ In our January submission, we included a Supply-Demand Balance enhancement request for the development of a River Aire solution. Following engagement with RAPID we propose to include this allowance within SYS SRO and remove it from the Supply enhancement data tables.

⁵ The Kielder - United Utilities transfer was not selected in any regional or company water resources plans. However, the potential long-term strategic benefits of this solution are such that this option should be explored in greater detail, both in its feasibility and contribution to long-term national water resources needs.

2.2.3 Nottinghamshire Minewater SRO

Our final SRO proposal is a novel, cross-sector project in collaboration with Severn Trent Water and the Coal Authority. This SRO will explore the potential to treat minewater for the purposes of public water supply whilst minimising the waste streams associated with the dewatering operations of minewater treatment schemes. The specific benefits to Yorkshire Water of this potentially new source of supply is two-fold:

1. Provide a direct supply to Yorkshire Water's conjunctive use grid via South Yorkshire, partially replacing the loss of supply from termination of UDV.
2. Provide a direct supply to Severn Trent Water's Nottinghamshire Water Resource Zone (WRZ) and reducing the support required in this zone from UDV via Severn Trent's grid.

We have engaged with RAPID on this proposal and Ofwat's draft determination is as follows:

Some new schemes have been identified at a late stage and require further evidence and information before we can confirm that they would be included within the RAPID programme. In many cases, these projects are innovative and reflect the emerging opportunities of cross sector collaboration, particularly the Nottinghamshire Mine Water treatment project (Severn Trent Water, Yorkshire Water and the Coal Authority) and the Rudyard reservoir augmentation project (Severn Trent and the Canal and Rivers Trust). We continue to engage with companies on these projects and, subject to further information, are minded to accept these as major projects within the RAPID programme⁶.

We anticipate completion of Gates 1, 2 and 3 in 2025, 2027 and 2030 respectively. Outputs from Gate 2 would also inform whether there is the potential to incorporate this solution into the SYS SRO to enhance regional water resources resilience. On completion of Gate 2 we would review the outputs alongside other ongoing SROs with a view to reallocating SRO programme funding according to need (i.e. where new evidence supports acceleration of a specific project(s)).

⁶ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Major-projects-development-and-delivery-1.pdf>
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Figure 2-1: Strategic water resources and investigations overview

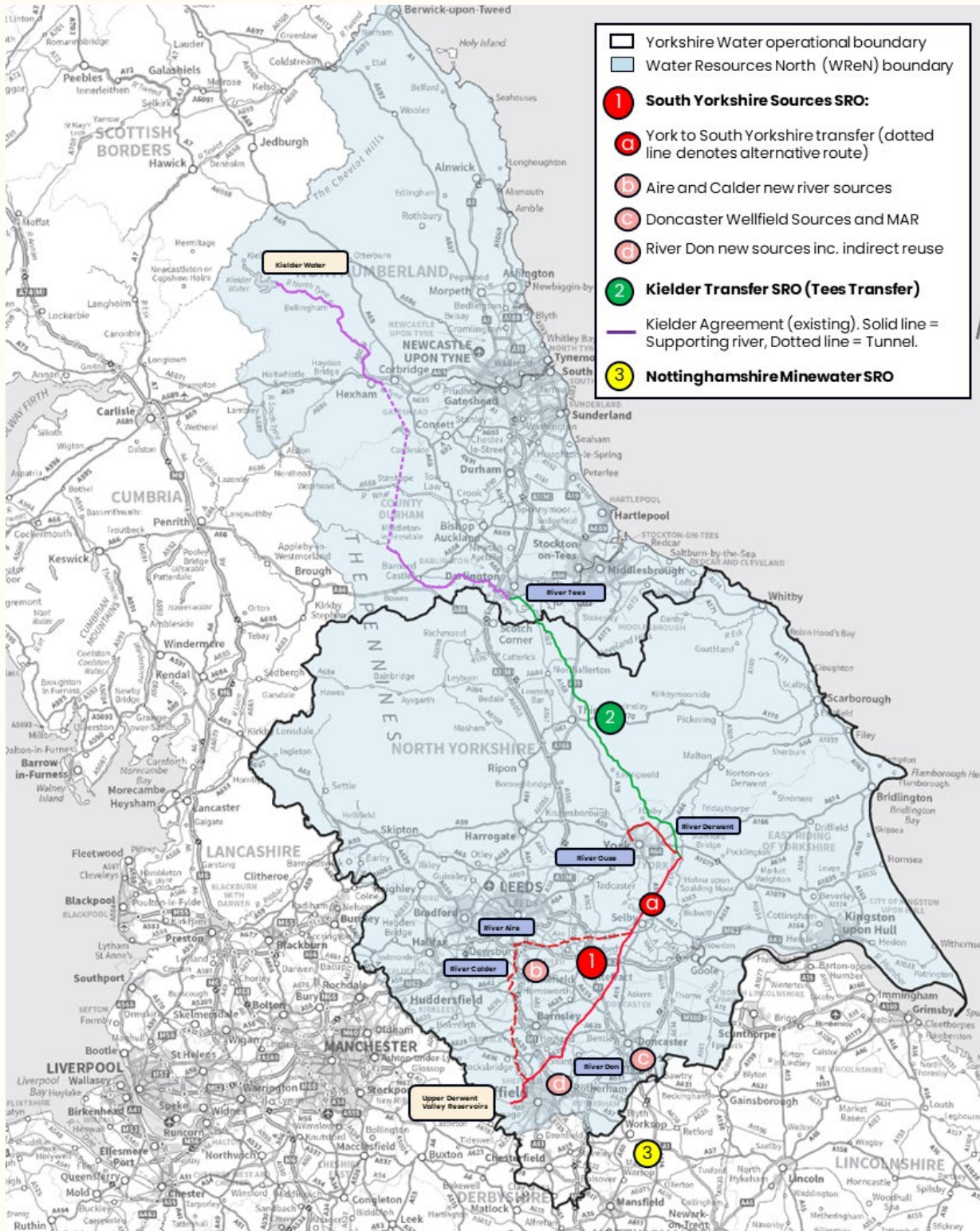
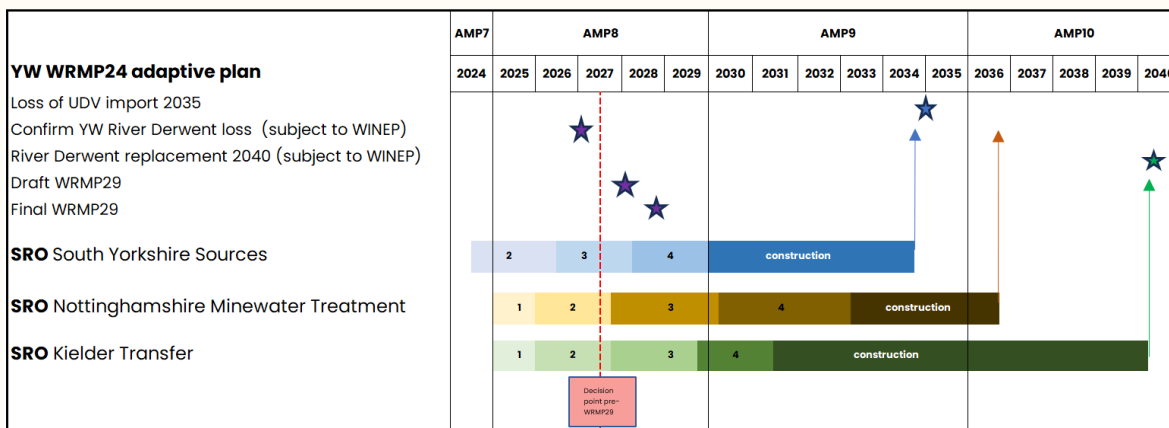


Figure 2-2: Strategic water resources and investigations Programme



2.3 Alignment with Ofwat’s major projects draft determination

This section provides additional information to support our SRO programme, aligned with the principles of Ofwat’s Major Projects draft determination appendix⁷ and associated PR24 methodologies. It sets out Yorkshire Water’s position and forms the basis of the proposed allowances in Section 3.

2.3.1 Early development allowances and profiling of allowances

- In terms of the PR24 methodology, we consider the movement of the total investigation costs from 6% of total capex to 5.5% to be reasonable.
- We accept the reprofiling of the percentage spend across the gates for AMP8 schemes in PR24 underpinned by evidence presented by RAPID on previous projects. Our AMP8 SROs for Kielder Transfer and the Nottinghamshire Minewater have been calculated using this profile.
- However, we are challenging that early gate investigations (previously gates 1 and 2) are largely base funding due to the size, complexity and novel / innovative aspects of the projects. We have concerns with disallowance of funding for early gate development for SROs as we believe this acts as a disincentive to explore more novel options and does not reflect the complexity of large multi-party projects which are not represented in the historic base costs.
- We do not agree that the investigation and costs required in the early SRO gates are necessarily equivalent to WRMP options development base costs. They will include costs for engagement with multiple partners and multiple regulatory representatives (including funding National Appraisal Unit activities). They include additional costs for commercial, legal, environmental and assurance activities associated with the development of multi-party options and increased governance associated with the gated process.
- We acknowledge that RAPID has issued further guidance ‘*Approach to the RAPID programme and gated process for PR24*’⁸ on 22 August 2024 and we note that they ‘*acknowledge that there is a possibility that base expenditure does not sufficiently encompass all activities required to progress a solution for gate two*’. As this guidance was not available in time to feed into this representation, we have assumed a lighter touch gate 1 process and have requested full enhancement funding for gates 2, 3 and 4. We would welcome further engagement on this ahead of final determination.

⁷ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Major-projects-development-and-delivery-1.pdf>

⁸ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Approach-to-the-RAPID-programme-and-gated-process-for-PR24.pdf>

2.3.2 Case for water resources enhancement funding

We support Ofwat’s position, as set out in PR24 final guidance⁹, that enhancement investment for the development of strategic supply solutions is justified in certain conditions. Table 2.2 summarises how each of our proposed SROs meets these criteria.

Table 2-2: Enhancement Criteria from PR24 methodology

Criteria from PR24 Methodology	South Yorkshire Sources	Kielder Transfer	Nottinghamshire Minewater
<i>The scheme should be connected to an alternative adaptive pathway set out in a company long-term delivery strategy to meet a defined externally driven uncertainty</i>	Yes, the solution is required by 2035 to offset the loss of supply due to UDV export termination.	Yes, the solution is required by 2040 (linked to licence reductions to support protected area objectives) and therefore requires development in AMP8 (13 year estimated lead-in time).	This solution is not currently in an adaptive pathway but could provide significant regional benefit if feasible.
<i>The scheme requires a material enhancement allowance and has a long lead-in time to develop and deliver which covers more than one price control period</i>	Yes, development and delivery spans multiple price controls and must be construction ready in AMP8 / implemented by the end of AMP9.	Yes, development and delivery spans multiple price controls and must be construction ready early in AMP9.	Yes, the development and delivery of this novel solution is likely to cover multiple price controls (AMP8 and AMP9)
<i>The preparatory investment in the scheme in this price control period is better value for money than delaying the investment until there is certainty of need in a subsequent price control period</i>	Yes, the preparatory investment is critical to ensure timely implementation of a feasible solution by 2035.	Yes, the preparatory investment is critical to ensure timely implementation of a feasible solution by 2040.	Yes, understanding the feasibility of this solution early in AMP8 is central to understanding its potential benefit regionally alongside other needs and solutions. Also ensures early benefit to Coal Authority in terms of dewatering need.
<i>The scheme is the best option to meet the need and the proposed funding allowance is efficient and appropriate for the preparatory work</i>	Yes, the River Ouse treated water transfer solution is selected in Yorkshire Water’s Best Value Plan WRMP24. However, based on new information we consider that the alternatives may have equal or greater environmental, water resources and resilience credentials, and are being investigated to the same degree. Solution development costs are consistent with RAPID methodologies.	Yes, the Tees Transfer solution is selected in Yorkshire Water’s Best Value Plan WRMP24. Solution development costs are consistent with RAPID methodologies.	Solution development costs are consistent with RAPID methodologies.

⁹ Section 3.4.5 in https://www.ofwat.gov.uk/wp-content/uploads/2022/04/PR24-and-beyond-Final-guidance-on-long-term-delivery-strategies_Pr24.pdf

Criteria from PR24 Methodology	South Yorkshire Sources	Kielder Transfer	Nottinghamshire Minewater
<p><i>There is appropriate customer protection in place to ensure that the preparatory work is progressed</i></p>	<p>Yes, a solution is required as part of the long-term strategy set out in WRMP24 and in the Best Value plan.</p> <p>The risk of an uncertain or undeliverable solution is reduced through the inclusion of alternative options and the portfolio approach across the SROs.</p> <p>The RAPID SRO gated process incentivises companies to deliver key submissions to RAPID on time and to high quality. Solutions are discontinued as soon as they are identified as no longer being feasible. Discontinued or reallocated funding can result in some customer funding being returned.</p> <p>The funding reconciliation process also means that unspent funds are returned to customers.</p> <p>The key outputs from ongoing investigations are programmed to allow the best value option, which is feasible to be taken forward, whether that is the current option in the WRMP24 Best Value Plan or one of the alternative options. Concurrent investigation reduces programme risk and the risk of abortive work.</p>	<p>Yes, the outputs from early gate investigations are programmed to ensure key information is available to confirm if the solution is feasible and can progress.</p> <p>The RAPID SRO gated process incentivises companies to deliver key submissions to RAPID on time and to high quality. Solutions are discontinued as soon as they are identified as no longer being feasible. Discontinued or reallocated funding can result in some customer funding being returned.</p> <p>The funding reconciliation process also means that unspent funds are returned to customers.</p>	<p>Yes, the RAPID SRO gated process incentivises companies to deliver key submissions to RAPID on time and to high quality. Solutions are discontinued as soon as they are identified as no longer being feasible.</p> <p>Discontinued or reallocated funding can result in some customer funding being returned.</p> <p>The funding reconciliation process also means that unspent funds are returned to customers.</p>

2.3.3 Portfolio approach

We support Ofwat’s proposal to allow companies to take a portfolio approach to their major projects, allowing flexibility to reallocate funding according to need. We would welcome further guidance and engagement from RAPID / Ofwat around the practicalities of this ahead of Final Determination.

2.3.4 Customer protection and company incentives

Our customers will benefit from protections against late delivery and poor-quality submissions to RAPID for our SRO schemes. These protections take the form of incentives placed upon Yorkshire Water to invest efficient allowances effectively in accordance with the framework of SRO delivery penalties under the gated process.

For any solutions discontinued, unspent funding will be returned to customers where the solution is stopped at an in-period gate, and the funds are not reallocated to a substitute solution.

For solutions that do progress, companies can face penalties of up to 30% of a company’s efficient gate funding for late and poor-quality submissions to RAPID. We understand this excludes where expenditures are from the company AMP8 base allowances (that is, necessary early development costs required for Gate 1 and / or Gate 2 where Ofwat disallows this funding as within its PR24 Final Determination).

To help protect customers from the uncertainty in developing major projects, any project over and underspends will be addressed with specific cost sharing arrangements.

Any funding contingent on the granting of consents or permissions will not be added to customers’ bills in 2025-30. Yorkshire Water will record such expenditures and seek an end of period reconciliation to recover these costs from customers’ bills in the 2030-35 period (AMP9). We believe

this approach to contingent funding proposed by Ofwat strikes a fair balance in addressing uncertainty of project progression and required allowances, as long as the opportunity to secure funding from bills in AMP9 is secure.

Where an SRO scheme proceeds into delivery and this is progressed via the DPC route, a further penalty framework is proposed by Ofwat again on the quality and timeliness of delivery at key stages within the DPC regime.

We note that the DPC incentive mechanism is designed to work to complement the RAPID incentives framework, and we think as proposed they do this. For example, the DPC incentives will not apply at DPC Stage 2 where the project is a RAPID project, since the project will face RAPID delivery incentives at Gate 3.

Below we present the DPC incentives mechanism as proposed by Ofwat at the PR24 Draft Determination (Table 2.3) and then the Yorkshire Water view of suitable DPC incentives (Table 2.4). We welcome the structure Ofwat sets out but believe the incentive values (penalties and success fee) require reduction under DPC Stages 2-4 and financial closure.

Table 2-3: Ofwat illustration of proposed DPC incentives

Ofwat proposed DPC incentives	Stage 2 (applicable for non-RAPID DPC projects only)	Stage 3	Stage 4	Financial close
Example activities/ deliverables as per DPC guidance	High-level contracting strategy covering payment, termination / exit / asset management, etc.	Detailed Payment Mechanism, draft CAP agreement	Final version of CAP agreement; programme plan covering the construction period.	Entering into CAP Agreement and provision of project handbook within 6 months of CAP Agreement signing.
Quality weighting	60%	50%	40%	Single success fee on entering CAP agreement, calculated as 4% of the project's whole life totex.
Timeliness weighting	40%	50%	60%	
Penalty (cumulative)	20% of Stage 2 DPC related costs funded in PR24	25% of Stage 2 + Stage 3 DPC related costs funded in PR24	40% of Stage 2 + Stage 3 + Stage 4 DPC related costs funded in PR24	N/a

Table 2-4: Yorkshire Water proposal for DPC incentives

Yorkshire Water proposed DPC incentives	Stage 2 (applicable for non-RAPID DPC projects only)	Stage 3	Stage 4	Financial close
Example activities/ deliverables as per DPC guidance	High-level contracting strategy covering payment, termination / exit / asset management, etc.	Detailed Payment Mechanism, draft CAP agreement	Final version of CAP agreement; programme plan covering the construction period.	Entering into CAP Agreement and provision of project handbook within 6 months of CAP Agreement signing.
YW view - Quality weighting	70%	50%	40%	Single success fee on entering CAP agreement, calculated as 3% of the project's whole life totex.
YW view - Timeliness weighting	30%	50%	60%	
YW view - Penalty (cumulative)	10% of Stage 2 DPC related costs funded in PR24	10% of Stage 2 + Stage 3 DPC related costs funded in PR24	20% of Stage 2 + Stage 3 + Stage 4 DPC related costs funded in PR24	N/a

We would be happy to discuss the incentives mechanism with Ofwat and in relation to any of our SRO schemes that progress towards DPC delivery.

3. Proposed allowances

3.1 South Yorkshire Sources SRO

Our SYS SRO allowance proposal is based on the continuation of the SRO into AMP8 and the programme outlined in Figure 2.2. Table 3.1 summarises the changes to our plan following Ofwat’s draft determination and explains how we have amended our proposal allowances across three associated cost models (SRO, Supply and DPC). In summary, our proposal is based on:

1. Inclusion of SYS in the SRO data tables.
2. Removal of the River Aire and Calder solution from the supply data tables for inclusion in SYS.
3. Inclusion of DPC development costs proposed by Ofwat at draft determination and rephased DPC construction costs based on a programme review.

Table 3-1: Summary of changes to the South Yorkshire Sources SRO enhancement

	SYS SRO Costs (£m)	Supply Demand Balance (£m)	DPC Development (£m)	DPC Related (£m)	DPC construction (£m)	Description
October 2023 Business Plan submission	-	-	25.04	7.0	152.01	No explicit SRO allowance requested. Backfill SRO (York WTW) allowance included in DPC/SUP12 tables
January 2024 Business Plan resubmission	-	0.79	25.04	7.0	152.01	As per October but with additional enhancement request to support River Aire supply solution
Ofwat’s Draft Determination	-	-	9.82	10.95	152.01	DPC development & project related costs changed. River Aire enhancement request disallowed due to lack of evidence.
YKY Draft Determination Representation	17.09	0.79	-	10.95	11.03	Total allowance for SYS in SRO (by gate in table below) plus DPC related costs reflect Ofwat DD. Aire and Calder included within SYS. DPC construction re-phased.

Note 1: The DPC costs in SUP12 were not correctly inflated to the PR24 price base in the October 2023 and January 2024 submissions but were corrected in the April 2024 Business Plan resubmission not mentioned above.

Note 2: Our representation still retains the allowance of £0.787m in the supply enhancement case (table CW8 and Section 4 of our Expenditure allowances – water representation) but this would be removed if the SYS SRO funding request is accepted.

The proposed spending profile for the SYS SRO in AMP8 is shown in Table 3.2 below.

Table 3-2: AMP8 Enhancement Allowance Proposal – South Yorkshire Sources

SRO	Gate 2*	Gate 3	Gate 4	AMP8 Total
SYS	£2.8m	£7.84m	£6.42m	£17.09m

* Gate 2 remaining forecast based on partial progression during AMP7.

3.1 Kielder Transfer SRO

Our Kielder allowance proposal is summarised in Table 3.3 below, with detailed rationale provided in Section 7 of our Expenditure allowances – water representation ([YKY-PR24-DDR-03](#)).

Table 3-3: Summary of changes to the Kielder Transfer SRO enhancement allowances

Summary of changes to the Kielder Transfer SRO enhancement allowances	
	Allowance (£m)
October 2023 Business Plan submission	0
January 2024 Business Plan resubmission	£20.21
Ofwat’s Draft Determination	£19.59
YKY Draft Determination Representation	£12.45

The proposed spending profile for the Kielder Transfer SRO in AMP8 is shown in Table 3.4 below.

Table 3-4: AMP8 Enhancement Allowance Proposal – Kielder

SRO	Gate 2 (10%)	Gate 3 (55%)	Gate 4* (45%)	AMP8 Total
Kielder Transfer	£1.70m	£10.08m	£0.67m	£12.45m

* partial progression in AMP8 assumed

3.2 Nottinghamshire Minewater Treatment SRO

Our Nottinghamshire Minewater allowance proposal is summarised in Table 3.5 below. These are based on a proposed 50:50 split in development costs between Yorkshire Water and Severn Trent Water. However, we acknowledge these figures are misaligned with Severn Trent Water’s draft determination representation, as Severn Trent has requested a partial allowance (up to Gate 3) with Yorkshire Water requesting a whole-AMP8 allowance. We intend to align these proposed allowances ahead of Final Determination following further engagement with RAPID on the scope of this SRO.

Table 3-5: Summary of changes to the Nottinghamshire Minewater SRO enhancement allowances

Summary of changes to the Nottinghamshire SRO enhancement allowances	
	Allowance (£m)
October 2023 Business Plan submission	-
January 2024 Business Plan resubmission	-
Ofwat’s Draft Determination	-
YKY Draft Determination Representation	£5.92m

The proposed spending profile for the Nottinghamshire Minewater SRO in AMP8 is shown in Table 3-6 below.

Table 3-6: AMP8 Enhancement Allowance Proposal – Nottinghamshire Minewater

SRO	Gates 1 – 2 (10%)	Gate 3 (55%)	Gate 4* (45%)	AMP8 Total
Nottinghamshire Minewater	£2.35M	£3.29M	£0.28m	£5.92m

** partial progression in AMP8 assumed*