August 2026

Notification of the PR24 cost change process draft determination for Southern Water

Ofwat

Lawrence Gosden
Chief Executive Officer
Southern Water Services Limited
Southern House, Yeoman Road
Worthing
Sussex
BN13 3NX

Dear Lawrence

Cost change draft determination 2026

13 August 2026

I enclose in Appendix 1, the cost change draft determination by the Water Services Regulation Authority (Ofwat), including proposed changes to Price Controls for the period from 1 April 2027 to 31 March 2030.

This draft determination is published on our website. We also publish the following documents, which support our cost change draft determination for Southern Water:

- Cost change draft determinations 2026 - Sector Overview;
- Cost change draft determinations 2026 – Asset health cross cutting issues appendix;
- Cost change draft determinations 2026 – Price control deliverables (PCD) appendix;
- Cost change draft determinations 2026 – Asset health PCDs; and the suite of

- Cost change draft determinations models for Asset health, Large Gated Schemes, Havant Thicket and Major Projects.

In accordance with sub-paragraph 15ZA.1 of Condition B: Charges of Southern Water Services Limited's appointments as a water and sewerage undertaker, Ofwat now gives notice of its intention to determine the questions set out in sub-paragraph 15ZA.3 of Condition B in relation to the following Eligible Item(s):

- 3. Asset Health
- 4. Major Projects Development Costs
- 5. Changes in charges payable under the Havant Thicket Agreement
- 6. [WTW1] and [WTW2] Water Treatment Works scheme
- 7. Hastings & Isle of Sheppey resilience scheme
- 8. Sandown Wastewater treatment Works reuse scheme

I enclose the following additional information relevant to our decisions within the appendices of this document:

Appendix 2: the impact of our draft determination on Southern Water's customers' bills from 1 April 2027 to 31 March 2030 and price controls.

Appendix 3: Our draft determination on how Southern Water's expenditure allowances are funded

Appendix 4: Our detailed assessment of, and decision on, Southern Water's submitted claims.

Southern Water should ensure that it reads all the information referred to above before responding to this consultation. The closing date for responding to this draft determination consultation is 24 September 2026. Southern Water has published its cost change submission on its website. We include a link to this publication on our website.

Yours sincerely,

Helen Campbell

Executive Director, Delivery

Contents

Appendix 1: Cost change draft determination

In Southern Water's 2026 cost change submission, we received seven claims across the following cost areas:

- Asset Health- boreholes
- Asset Health- water network storage assets
- Asset Health – gravity sewers inspections
- Large Gated Schemes- Sandown
- Large Gated Schemes- WTW1
- Large Gated Schemes - Hastings
- Havant Thicket
- Major projects development costs

Table 1 below provides a summary of our draft determination total cost change expenditure allowance compared to the cost change expenditure you requested in your submission. We explain our decisions in Appendix 4 of this document.

Table 1: Breakdown of the difference between Southern Water's view and Ofwat view of costs (£million, 2022-23 FYA CPIH prices)

	2025-30 period	2030-35 period
Company total cost change claim	956.8	67.7
Ofwat 'insufficient evidence of need' or 'out of scope of cost change process' assessment[1]	-229.4	0.0
Company total 'in scope' cost change claim[2]	727.4	67.7
Ofwat 'best option' challenge[3]	-11.2	-4.9
Ofwat efficiency challenge[4]	-29.2	-1.6
Ofwat draft determination cost change allowance	687.6	61.2

Our draft determinations include price control deliverables (PCDs) to hold Southern Water to account for delivery. Our approach to PCDs is set out in the Cost Change Draft Determinations 2026 – Price control deliverables appendix.

[1] Details of costs excluded are set out in Appendix 4.
[2] The company's total eligible cost claim that demonstrates the need for the required step change in investment and is within the scope of the cost areas.
[3] Our review of the company's evidence of optioneering and associated cost benefit analysis and that the options put forward are the best option for customers.
[4] Our review of the company's evidence of efficient unit costs and associated methodology.

The impact of our draft determination for revenue and regulatory capital value (RCV) adjustments by price control are set out in tables 2 and 3 below.

Table 2: Southern Water's draft determination revenue adjustments by price control and when they apply (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Waste-water network plus	Bio-resources	Total
Total in-period revenue adjustment for 2027-28	49.507	11.548	1.423	0.000	62.478
Total in-period revenue adjustment for 2028-29	24.275	19.274	1.653	0.000	45.201
Total in-period revenue adjustment for 2029-30	27.918	25.760	0.592	0.000	54.271
Total end of period revenue adjustment at PR29	3.292	12.293	3.584	0.000	19.169

Table 3: Southern Water's draft determination RCV adjustments by price control (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Waste-water network plus	Bio-resources	Total
Total end of period RCV adjustment at PR29	120.137	435.402	0.000	0.000	555.540

Table 4 sets out the impact of our draft determination on the company's last determined price controls[5].

Table 4: Draft determination changes to price controls for Southern Water

Price control		2025-26	2026-27	2027-28	2028-29	2029-30
Water resources (K factors)	Last determined	41.26	50.38	-17.28	5.54	5.32
	Revised	41.26	50.38	66.21	-46.52	5.32
Water network plus (K factors)	Last determined	54.07	11.64	7.30	5.38	5.17
	Revised	54.07	11.64	11.15	1.83	5.17
Wastewater network plus (K factors)	Last determined	60.13	-10.30	6.46	4.92	5.19
	Revised	60.13	-10.30	6.68	4.71	5.19

[5] For Southern Water, the last determined priced controls are those redetermined by the Competition and Markets Authority.

Price control		2025-26	2026-27	2027-28	2028-29	2029-30
Bioresources (unadjusted revenue, UR_t £m, 2022-23 FYA CPIH prices)	Last determined	67.065	67.538	73.393	73.836	75.584
	Revised	67.065	67.538	73.393	73.836	75.584

Appendix 2: Impact on Southern Water's customers' bills and price controls

The average bill increase for customers of Southern Water, in absolute and relative terms, is set out in table 5. This is the average bill increase for all customer classes as a result of our cost change decisions. The bill increase for each customer class will be different.

Table 5: Average bill increase above the CMA redetermination due to cost change process[6]

Company	2027-28 £	2029-30 £
Southern Water	43	37

[6] This is the average bill increase for all customer classes as a result of our cost change decisions when compared to the average bill as redetermined by the Competition and Markets Authority. The bill increase for each customer class will be different.

Appendix 3: Our decisions on how we fund Southern Water's expenditure allowances

Southern Water requested in-period funding for its cost changes allowances in its submission.

We must determine whether expenditure allowed in the cost change process requires a change to company price controls to allow in-period funding. The cost change guidance notes set out our approach to assessing whether to provide in-period or end of period funding for allowed expenditure. The factors we consider are summarised in section 5 of PR24 Cost change draft determinations 2026 – Sector overview document. Where we provide in-period revenue adjustments, this consists of:

- any pay as you go expenditure reflecting opex allowances;
- allowed return on any committed additions to RCV, based on the allowed return in companies' PR24 determination;
- run-off on any committed additions to RCV based on the final determination RCV run-off rates for the relevant wholesale controls; and
- where applicable, we will also provide issuance costs for additional required equity identified within the financial model at the same rate as for the final determinations of 2.5% of new equity.

For Southern Water we allow in-period funding for some of the allowed expenditure. Details of the revenue adjustments are set out in appendix 1 of this document. Our decision reflects our consideration of the relevant factors in the round.

- We provide in-period revenue funding for £542.8 million allowed expenditure during the 2025-30 control period, related to Havant Thicket, major projects, and its large gated schemes. This funding will allow Southern Water to progress this work during the current price control period. We will make an adjustment to RCV at 31 March 2030 for allowed totex not recovered in-period.
- We do not provide in-period funding for £3.2 million of allowed expenditure for Southern Water's gravity sewers inspections claim. We set out in our PR24 Cost change guidance for gravity sewers, that any adjustments to allowances for increased gravity sewer inspections would be funded through an end-of-period adjustment.[7]
- We do not provide in-period funding for £144.8 million of allowed expenditure for Southern Water's asset health claim.

In our assessment we carefully considered the financial impact of the additional expenditure we allow and how a company is progressing against delivery of its existing

[7] Ofwat, 'PR24 Cost change process: Gravity sewers investment assessment guidance', February 2026, p.9

investment programme. We set out our assessment of these below. We consider that Southern Water would face a financeability constraint without in-period revenue funding, particularly towards the end of the 2025-30 price control period. However, this assumes that Southern Water spends all of its cost allowances and has no under- or out-performance. The company has not provided sufficient and convincing evidence that it is on track to deliver its water or wastewater commitments over the 2025-30 price control period. Delivery in 2025-26 has also failed to demonstrate that it is not behind on its delivery of its commitments.

The company provided information on customer views, stating that customers broadly recognised the need for investment to maintain resilient services and accommodate future demand. However, there were concerns regarding trust, affordability, and perceived company performance and concerns over the cumulative impact of multiple investments on bills. Some customers questioned whether water treatment works upgrades constituted routine maintenance and should therefore require additional customer funding.

Overall, considering all the factors, our draft determination is to allow in-period revenue funding related to Havant Thicket, major projects, and its large gated schemes, but not to allow in-period revenue funding for asset health expenditure. This recognises that Southern Water may face a financeability constraint without the provision of in-period revenue adjustments and that work relating to Havant Thicket, major projects, and its large gated schemes needs to be progressed within the 2025-30 period. But it also recognises the company has not provided sufficient and convincing evidence to demonstrate that it remains on track to deliver its PR24 commitments by the end of the price control period. In the circumstances, we do not think that it is appropriate to require customers to provide Southern Water with additional revenue for asset health at this stage when it is behind in delivering investment that customers are already funding.

Funding for asset health expenditure will be provided as an adjustment to RCV at 31 March 2030 and an adjustment to revenues over the 2030-35 price control period. Should Southern Water be able to provide sufficient and convincing evidence that it is on target to deliver its commitments over the 2025-30 price control period in cost change submissions in future periods, the company may consider whether to request in-period funding for this.

We expect Southern Water to set out, or update, its consideration of the impact of both the cost change and outcome delivery incentives (ODI) payment processes in its response to the draft determination[8]. This should take account of our draft determinations and its view of this and any other factors or changes since it submitted

[8] Ofwat, 'IN 26/01 Submission of cost change applications', February 2026

its claims during the March to May window. This should take account of the latest view on progress on delivering existing investment programmes.

A3.1 Delivery assessment

2025-30 delivery

We reviewed the company's May 2026 delivery plan update. On balance, we consider that the company does not provides sufficient and convincing evidence to demonstrate that it remains on track to deliver its PR24 commitments by the end of the 2025-30 period. We provide a summary of our assessment below for water and wastewater.

Water

In its May delivery plan update, the company showed the following positive indicators in relation to 2025-30 delivery progress for water:

- The company reported meeting most of its interim milestones (77%) in 2025-26.
- The company spent most of its water price control deliverables (PCD) allowances in 2025-26 and is forecasting to slightly underspend PCD allowances by the end of 2025-30 period.
- The company is forecasting to have released 76% of its capital schemes to the supply chain by the end of 2026-27.
- The company is forecasting to have 74% of its capital schemes in construction or delivered by the end of 2027-28.
- The company remains confident that it will deliver all of its PCD outputs by the end of the 2025-30 period.

However, there are some indicators that raise significant concerns in relation to the company's delivery forecasts for the 2025-30 period:

- The company showed little progress in relation to water PCD outputs, delivering significantly below baseline target in 2025-26 (see section below on delivery in 2025-26).
- Underperformance in year 1 is partly due to mains renewals, where the company explained that it had paused its base related programme during the CMA PR24 redeterminations process. Although the company is now forecasting to deliver its mains renewal programme by the end of the 2025-30 period, we have concerns that the company may not be able to recover the year 1 under delivery given the scale and complexity of the programme.
- The company also stated that some of the options within its Water Resources Management Plan are no longer affordable or feasible and so it will have to

replace them to deliver its water supply PCD. We have concerns that this process could cause delays in the company's 2025-30 water supply programme.

Wastewater

In its May delivery plan update, the company showed the following positive indicators in relation to 2025-30 delivery progress for wastewater:

- The company reported meeting nearly all of its interim milestones (99%) in 2025-26.
- The company spent most of its wastewater PCD allowances in 2025-26 and is forecasting to slightly overspend PCD allowances by the end of the 2025-30 period.
- The company is forecasting to have 72% of its capital schemes in construction or delivered by the end of 2027-28.

However, there are some indicators that raise significant concerns in relation to the company's delivery forecasts for the 2025-30 period:

- The company showed little progress in relation to wastewater PCD outputs, delivering significantly below baseline target in 2025-26 (see section below on delivery in 2025-26).

- The company is not forecasting to deliver all of its PCD targets by the end of the 2025-30 period. The company is anticipating slippage into the 2030-35 period for its Growth at sewage treatment works programme, delivering only 33% of output by March 2030. The company explains that analysis of recent flow and population forecast data indicates that growth is not materialising as expected in some sites and that it will have to reprioritise and substitute schemes. It also explains that the programme is complex and that it will re-assess every year whether removing infiltration may achieve some of the benefits intended under this PCD.

Delivery in 2025-26

Based on its May 2026 delivery plan update, the company has failed to demonstrate that it is not behind delivery in 2025-26:

- On water, the company reported delivering 69% less PCD outputs (in value terms) in 2025-26 compared to baseline target.

- On wastewater, the company reported delivering 73% less PCD outputs (in value terms) in 2025-26 compared to baseline target.

A3.2 Financeability assessment

Southern Water requested in-period funding within its cost change submission. Southern Water provided analysis of the impact of the cost change process on its financeability in the absence of in-period revenue, The analysis set out that the financial ratios, gearing, adjusted interest cover (AICR), and funds from operations to net debt (FFO/net debt) all showed deterioration over the 2025-30 control period, and gearing increased over the same period. The company concluded that access to debt funding would become constrained and costly, and equity issuance would be challenging.

We have set out our approach to assessing financeability in annex A2.2 of the PR24 cost claim draft determinations 2026 sector overview document. We have assessed Southern Water's financeability on the basis of the notional capital structure within a copy of the CMA's final determinations financial model by adding in the additional cost allowances in our draft determination. We have maintained other assumptions, including the allowed return on capital, in line with the final determinations that applied to Southern Water. Our financeability assessment assumes the company spends its totex allowances according to the profile set out in the final determinations and has no under- or out-performance.

In the round, we consider that Southern Water may face a financeability constraint without the provision of in-period revenue adjustments. As per the company's own analysis, AICR and FFO/net debt deteriorate over the 2025-30 control period. The financial ratios in our assessment are significantly below the guidance for a Baa1/BBB+ rating for the last two years of the current price control period. We consider that the financial ratios may not support the target credit rating for these two years. However, as noted above this assumes that Southern Water spends all of its cost allowances and has no under- or out-performance.

Appendix 4: Our assessment of and decision on Southern Water's submitted claims

This appendix sets out our detailed assessment of, and decision on. each of the company's 2026 cost change claims. It should be read alongside the documents specified in the first page of this draft determination.

In its response to the draft determination, the company should confirm, to the extent that it has not already done so, which proposed schemes could impact sites of special scientific interest (SSSIs) or land in National Parks, or areas of outstanding natural beauty.

A4.1 Asset health

4.1.1 Water Network Storage Assets

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Southern Water requests £178.8 million to invest in its network storage assets across the 2025-30 period, to stabilise asset health across these assets and to create a sustainable programme of investment over future planning periods in this asset class. The requested funding comprises 30 refurbishment schemes (£46.4 million), 5 replacement schemes (£65.7 million), and 14 strategic optimisation schemes (£4.7 million), alongside expenditure on inspections (£33 million), DWI Category 2 and 3 risk (£26 million) and other costs (£3 million).		
Need for a step change in investment	**Decision summary - Conditional Pass.** We exclude the costs which are out of scope for Asset health. We pass £39.6 million of the proposed investment and conditionally pass £72.5million. For £39.6 million of the remaining £112.1 million of expenditure request (five sites – all with DWI notices), the company provides both a portfolio-level case for increased investment, and sufficient and convincing evidence on its asset/site level proposals. To achieve a Pass at final determination for all of the in scope proposed investment, the company must provide sufficient and convincing evidence on all its asset level proposals to address evidence gaps in order to justify the quantity of portfolio level investments being outlined over the investment	**Conditional Pass**	**£66.7million Excluded as out of scope** **Conditional challenge on £72.5m**

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	period. It is further observed that the company identify no operational expenditure (OPEX) savings through repairs saved in their investment plan. **Company evidence**- The company provides evidence of a transition to a risk-based inspection regime (as per DWI instruction), activity and associated expenditure data over the 2020-2025 (and 2015-2020) investment periods.[9] It also provides an asset health framework across its network storage portfolio, which classifies most assets as being in moderate condition (asset health three). 5.7% of network storage assets (15 of 264) have asset health scores 4 and 5.[10] The submission includes modelling, showing forecast changes in asset health over time, including an increase in assets in higher-risk condition grades by 2036.[11] The company also provides PIONEER modelling showing scenario analysis comparing alternative investment strategies and their impact on future asset health and water quality risk.[12] In addition, the submission includes details of Drinking Water Inspectorate (DWI) notices affecting several assets within the proposed programme.[13] While the company's submission references support from the Drinking Water Inspectorate (DWI), no formal written confirmation has been provided.[14]		Conditions met: £112.1 million Conditions missed: £39.6 million

[9] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Tables 2-4, pp.14-15.
[10] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Figures 15-16, pp.27-29.
[11] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Figure 17, pp.29-30.
[12] Southern Water, 'PR24 Asset Health Investment Case Network Storage' May 2026, Figures 19-21 and Table 12, pp.32-33.
[13] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Tables 13-14, pp.35–36.
[14] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Section 2.5.1, p. 35

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	In its proposals, the company provides a breakdown of costs and activities, which allow for the assessment of works in scope of the asset health reopener.[15] **Our assessment** - We exclude £66.7 million of costs which are out of scope for asset health. These include;[16] • £4.7 million for strategic optimisation work (network configuration modelling rather than direct asset health intervention); • £62 million for inspections (£33 million), DWI Cat 2 & 3 (£26 million) and 'other' (£3 million), which are not directly linked to asset health improvements, do not appear to be focused on capital maintenance interventions to improve the overall health of the asset, and are not supported by evidence across the assessment criteria. We would expect activities associated with inspections to be funded through existing base allowances. Across these categories, we cannot identify where these are discussed or described in the company's submission, aside from one graph showing the costs of the three elements.[17] Further information about the general rationale behind exclusions can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', Section 4. The company does not provide sufficient and convincing evidence as to why these elements have been included as part of its investment request. We accept the company's view of 'what base buys' (implicit allowance) across its asset proposals. The company has provided a clear view of 'what base buys', which is materially higher than an estimate based on sector averages. This provides reassurance that the		

[15] Southern Water- 'PR24 Asset Health Investment Case: Network Storage', May 2026- Figure 11, Table 21, Table 22, Table 23, Cost Breakdown and Query Response OFW-SRN-CCP-020, June 2026

[16] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Table 20

[17] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Figure 11, p.23.

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	requested investment is incremental to base allowances, and that customers are not paying twice for investment.[18] Our current analysis indicates that there is a sector-wide health issue for network storage assets.[19] The company provides evidence of a long-term and regulatory-driven need for investment (£39.6million) for five sites: Perry Hill, Tolt (cooks castle), Vining Lodsworth, Knightsfield Midhurst, Itchingfield. The company demonstrate high consequence of failure and/or considerable water quality risks at these sites, which may be indicative of an underlying asset health issue.[20] For these assets, we consider that the company has submitted sufficient and convincing evidence to demonstrate that a step change in investment is needed. For the remaining assets, the evidence is not sufficient and convincing. The need case is primarily driven by forward-looking forecasts and the current asset health scores provided by the company present the current risk as largely moderate, which does not support a need for a step change in investment. At the portfolio level, there are not clear and transparent evidence of the assumptions, which give rise to the need case (e.g. the numbers and profiling of interventions required to achieve steady state, and the assumed cost per intervention (with sensitivity) that give rise to the need case set out in Figure 19 of the submission[21]). If the company fills these gaps in its evidence, it will have provided sufficient and convincing		

[18] Our assessment and further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'
[19] Further detail can be found in the 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'
[20] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Table 14
[21] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 202, p.32

<table>
<tr><th rowspan="2">Assessment criteria</th><th rowspan="2">Assessment</th><th colspan="2">Decision</th></tr>
<tr><th>Criteria</th><th>Adjustment (applied and/ or conditional)</th></tr>
<tr><td></td><td>evidence to meet the requirements for 'Need for a step change in investment' (please see below).

To achieve a pass at final determination, the company must provide sufficient and convincing evidence to demonstrate the above including:
• that the additional £72.5 million investment is required now, and not in later investment periods (i.e. why £72.5 million 2026-30, and not £10 miilion 2026-30, or why £40.6 million 2026-30 and £30 million 2030-35).
• scenario analysis evidence to show that existing 2025-2030 base expenditure allowances funding inspection programme, does not bias the outcome of deterioration modelling;
• a clearer explanation of the PIONEER methodology, including constraints, trade-offs and selection rules.
• that the in-scope programme targets the highest priority risks;
• a transparent prioritisation framework, linking asset condition and risk to intervention timing; and
• Formal evidence of DWI support.
If this evidence is not provided in response to our draft determination, we may conclude that the company has not demonstrated sufficient and convincing evidence to justify the need for a step change in investment for some or all of the remaining proposed investment.</td><td></td><td></td></tr>
<tr><td>Best option for customers</td><td>Decision summary - Conditional Pass- Some Concerns. The company demonstrates that optioneering has been undertaken but does not provide sufficient and convincing evidence to demonstrate that the selected interventions represent the best option for customers.</td><td>Conditional Pass – Some concerns</td><td>10%

Conditions met (need + best</td></tr>
</table>

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Company evidence - The company provides evidence of an optioneering process and states that intervention options were identified through asset health assessments, deterioration modelling and specialist review. It provides a flow process diagram showing that approximately 300 intervention options were reduced to 39 intervention options through an intervention hierarchy and subsequent assessment processes.[22] The company also provides selection criteria for refurbishment, replacement and strategic optimisation interventions. For replacement schemes, the company states that a Risk & Value framework was used to assess options and provides a narrative example of this approach for a case study example.[23] The company provides use of PIONEER modelling and programme-level scenario analysis to assess alternative investment strategies across the asset base, including impacts on future asset health, water quality risk and expenditure requirements.[24] It also provides refurbishment, replacement and strategic optimisation programmes, including asset-level intervention lists for proposed activities.[25] **Our assessment** - A high-level optioneering framework is presented. However, the company does not provide sufficient and convincing evidence at asset level to demonstrate that the selected programme represents best value for customers. In particular, the submission primarily demonstrates benefits and investment trade-offs at a programme level through		option): £112.1 million Conditions missed (best option only): £100.89 million Conditions missed (need + best option): £35.64 million

[22] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Figure 22, pp.37-38; Southern Water, 'Ofwat Clarifications Response - Network Storage - Asset Health', June 2026, Figure 7, pp.17-18

[23] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Section 3.2.2, pp.42-44

[24] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Figures 19-21 and Table 12, pp.32-33; Southern Water, 'Appendix F NS - PIONEER methodology', May 2026; Southern Water, 'Ofwat Clarifications Response - Network Storage - Asset Health', June 2026, Figures 2-4, pp.10-11; Southern Water, Query Response, 'OFW-SRN-CCP-006', May 2026

[25] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, pp.45-54

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	PIONEER modelling and scenario analysis, rather than at scheme level.[26] The company states that replacement schemes were assessed using a Risk & Value framework and provides a narrative for an example; however, it does not provide the underlying outputs of this assessment, including option scores, rankings or quantified comparisons of alternatives, nor equivalent evidence for the remaining replacement schemes.[27] There is no clear linkage between individual interventions and quantified costs, benefits or risk reduction, and benefits are generally described qualitatively rather than through scheme-level cost-benefit or cost-effectiveness analysis. Consequently, we do not consider the company has provided sufficient and convincing evidence to demonstrate that the proposed programme represents the best option for customers. To achieve a pass at final determination, the company must provide sufficient and convincing evidence of: • asset-level optioneering evidence, demonstrating that selected interventions outperform credible alternatives (e.g. refurbishment vs replacement) and represent best value; • case studies (sample sites) showing current condition, risk, options considered, and justification for the preferred solution; and • clear quantification of costs, benefits and risk reduction at scheme level;		

[26] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, pp. 31-33, pp. 41-43; Southern Water, Query Response 'OFW-SRN-CCP-006', May 2026

[27] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Section 3.2.2, pp.42–44; Southern Water, 'Ofwat Clarifications Response - Network Storage - Asset Health', June 2026, p.19

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	If this sufficient and convincing evidence is not provided, we may apply a 10% cost challenge to reflect that there is insufficient evidence that the proposals represent the best option for customers.		
Robust and efficient costs	**Decision summary: Conditional Pass – Some concerns.** The company provides sufficient and convincing evidence to demonstrate that the proposed costs are based on credible costing methodology. However, it does not provide sufficient and convincing evidence that cost efficiency has been demonstrated consistently across the full programme, and further evidence is required. **Company evidence** -The submission applies a mixed costing methodology using contractor prices, framework rates and internal cost data. Final cost estimates were developed using a combination of contracted rates, standard costs and bottom-up estimates[28]. Cost estimates include direct costs and indirect costs. The submission includes benchmarking using internal historical data and external comparator evidence. Independent cost estimates were developed by a third party who also benchmarked the company's cost estimates against industry benchmarks and comparable schemes.[29] The full benchmarking report is included in the submission[30], and covers 95% of direct costs of replacement activity costs. **Our assessment** -The company provides sufficient and convincing evidence to demonstrate that the costing methodology is robust. The use of contractor pricing, framework rates and historical delivery data demonstrate that cost estimates are informed by both market evidence and previous delivery experience, consistent with Ofwat's expectations that costs	**Conditional pass – Some concerns**	**10%** Conditions met (need + best option + cost efficiency): £112.1million Conditions missed (cost efficiency option only): £107.55 million

[28] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, Section 4.1, pp. 60-61
[29] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, p.60
[30] Southern Water, Mott Macdonald, 'Southern Water Service Reservoir, Benchmark Report', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	should be supported by relevant cost information. The company also demonstrates that all major cost categories have been incorporated within the estimate. The company provides sufficient and convincing evidence that some cost elements are efficient. Third party benchmarking against comparator sources, covers 95% of costs for replacement activities and demonstrates that direct replacement costs are aligned with market expectations (reported as c.3.4% above benchmark averages) and indirect costs (c.9% below the benchmark average). However, the submission does not provide sufficient and convincing evidence that cost efficiency has been demonstrated consistently across the full programme. The evidence indicates that external benchmarking has only been applied to the network storage replacement programme. Efficiency for the remaining activities, refurbishment (£46.5 million) and strategic optimisation (£4.7 million), has not been demonstrated, as they are not supported by any accompanying evidence. Given strategic optimisation costs have been excluded on a needs basis, the cost efficiency challenge will apply only to the £46.5 million of refurbishment costs included in the submission. The company states that cost efficiency for the remainder of the programme, have been validated using supplier quotations. However, the supplier quotations have not been provided, and therefore it is not possible to assess whether the costs reflect efficient delivery assumptions, or, whether competitive market testing has taken place. In the absence of evidence to validate cost efficiency, the company does not provide sufficient and convincing evidence to demonstrate that efficiency has been demonstrated for the remaining portion of costs.		All conditions missed: £35.19 million

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	To achieve a pass at final determination, the company must provide sufficient and convincing evidence to: • Demonstrate the efficiency of the refurbishment costs (total £46.5 million) not supported by benchmarking evidence; • Provide the supplier quotations and supporting information used to validate these costs; • Clarify the extent of benchmarking coverage across the total programme cost and demonstrate how benchmarking has been applied to validate final cost estimates; and • Provide further evidence demonstrating that costs not covered by benchmarking are consistent with efficient delivery assumptions. If this sufficient and convincing evidence is not provided, we may apply a 10% cost efficiency challenge at final determination to the un-benchmarked proportion of the submission (£46.5million). A summary of the un-benchmarked proportion of the submission is included below: Of the £39.6 million passed, a 10% cost challenge will be applied to the £4.5 million of refurbishment costs included in this total amount. Of the £72.5 million passed conditionally, a 10% cost challenge will be applied to the £42 million of refurbishment costs included in this total amount.		
Customer protection	**Decision summary – Some gaps.** The company provides sufficient and convincing evidence to demonstrate that customers will be protected if the company under-delivers against the requested additional investment, however, it does not provide any protection for the PR24 implicit allowance. We have therefore applied a PCD to the 'what base buys' estimate.	**Some gaps**	

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Company evidence - The company does not propose a Price Control Deliverable (PCD) for activities delivered by existing PR24 base expenditure allowances. The company proposes a PCD that covers the proposed additional investment. This PCD consists of three sub-elements to ensure delivery of: refurbishments, replacements and strategic studies for service reservoirs.[31] **Our assessment** - The absence of a PCD covering base allowances means that customers are not protected in the event that the company does not deliver its activities associated with base allowances. To safeguard that activities associated with base allowances are delivered, a Base PCD will be applied to the 'what base buys' estimate provided by the company in the 'Need for Investment' gate of the submission. To enable us to protect customers, we propose to apply a PCD on the requested additional allowance which is tied to named schemes. Further detail on this PCD can be found in the Cost Change Draft Determinations 2026 – Price control deliverables appendix.		
Investment delivery plan	**Decision summary – Adequate.** The company provides sufficient and convincing evidence to demonstrate that the programme is deliverable. **Company evidence** - The company provides delivery risk and mitigation information for the refurbishment and replacement programmes, identifying key delivery risks and corresponding mitigation measures. It also provides confirmation that they have engaged with their supply	**Adequate**	

[31] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, pp. 64-65

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	chain, and delivery partners have confirmed both the replacement, and refurbishment programmes are deliverable. It has considered availability of materials as a risk and included this in its risk and mitigation table.[32] For replacement schemes, the company provides programme phasing and delivery timelines. For refurbishment schemes, the company provides a high-level delivery profile and states that delivery is managed through a rolling programme approach, completing 10 refurbishments each financial year, with maintaining flexibility on the programme to incorporate additional interventions identified through the ongoing inspection programme. [33] **Our assessment** - The company provides sufficient and convincing evidence that the proposed refurbishment and replacement activities are deliverable within the 2025-30 investment delivery period. The company identifies key delivery risks, including outages, inspection uncertainty and supply chain constraints, and provides mitigation measures for these risks. The company also stated that their delivery partners confirmed the additional work can be delivered. The company provides site specific delivery schedules for its replacement schemes. However, for its refurbishment schemes, only overall programme phasing has been shared. We would encourage the company to develop site specific timelines for the full programme of works (refurbishment and replacement activities).		

[32] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026, pp. 69-72, Table 28
[33] Southern Water, 'PR24 Asset Health Investment Case Network Storage', May 2026 pp. 66-72; Southern Water, Query Response, 'OFW-SRN-CCP-015', June 2026, pp.2-3

4.1.2 Boreholes

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Southern Water requests an additional £53.2 million of funding for the 2025-30 period for boreholes asset health, covering refurbishment, replacement/redrilling, decommissioning and enabling works. This includes: 11 Borehole Replacements (£11.5 million); 31 Refurbishments (£26.9 million); and; Strategic Optimisation, covering Decommissioning of 10 boreholes (£2.2 million); Strategic Review of 19 Adits & Wells (£8.1 million); and 19 Surveys & Enabling Works (£4.5 million).		
Need for a step change in investment	**Decision summary - Conditional Pass.** £23.7 million of investment items are out of scope of the asset health cost change process and are excluded from the assessment[34]. For the remaining £29.5 million of expenditure request, the company provides a portfolio-level case for increased investment, but there are currently gaps in demonstrating how need is defined and triggered at an asset level. To achieve a Pass at final determination, the company must provide sufficient and convincing evidence on its asset level proposals. The company identify no operational expenditure (OPEX) savings through repairs saved in their investment plan. **Company evidence** - The company forecasts increasing expenditure requirements relative to historical levels and implicit allowance, and presents asset health modelling. It shows deterioration over time under a reactive/implicit allowance scenario and states that intervention is required to stabilise risk. The modelling incorporates multiple factors (e.g. condition, maintenance, utilisation, age), and scenario analysis suggests that	**Conditional Pass**	**£23.7 million Excluded as out of scope** **Conditional challenge on £29.5 million in scope request** Conditions met: £29.5 million

[34] 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', section 4 sets out the general rationale that applies to out-of-scope elements, and assessment section below for details of the investment items removed

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	maintaining asset health requires higher investment than maintaining the implicit allowance. In its proposals, the company provides a breakdown of costs and activities, which allow for the assessment of works in scope of the asset health reopener[35]. The company has also provided various query responses (e.g. Document "Asset Health Investment Case: Boreholes Ofwat Clarifications" received via email 19/06/2026) adding further context to its decision making. While the company's submission references support from the Drinking Water Inspectorate (DWI), no formal written confirmation has been provided.[36] **Our assessment** - We exclude £23.7 million of costs which are out of scope for asset health.[37] These include: • £8.9 million for work on mothballed or redundant sites (including [redacted], which also have PR24 supply enhancement funding); and a primary driver of resilience.[38] • £14.8 million for strategic optimisation activities, including decommissioning, surveys and enabling works and Strategic Review of 19 Adits & Wells.		Conditions missed: £0 million

[35]Southern Water,'PR24 Asset Health Investment Case: Boreholes', May 2026, Appendix K, Cost Breakdown and Southern Water, Query Response 'OFW-SRN-CCP-017', June 2026
[36] Southern Water,'PR24 Asset Health Investment Case: Boreholes', May 2026, p 36, and Southern Water, Query Response 'OFW-SRN-CCP-003', May 2026
[37] 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', section 4
[38] Costs of sites excluded have been calculated using Southern Water – 'PR24 Asset Health Investment Case Boreholes', May 2026 table 17 and table 18 as well as Southern Water, Query Response 'OFW-SRN-CCP-017', June 2026

<table>
<tr><th rowspan="2">Assessment criteria</th><th rowspan="2">Assessment</th><th colspan="2">Decision</th></tr>
<tr><th>Criteria</th><th>Adjustment (applied and/ or conditional)</th></tr>
<tr><td></td><td>In our guidance,[39] we said that investment proposals may be required to: address a step-change in direct risks to assets from external factors; address a step change in risk because of higher than expected rates of deterioration; and/or address high consequence risks for assets that require infrequent but major investment.

In our assessment, we do not consider that activities associated with sites that are out of recent service (decommissioning or activities to restore supply), meet these criteria. In our guidance we also said "investment cases submitted through the cost change process should be focused on capital maintenance interventions to improve the overall health of the asset. We therefore consider that refurbishment and replacement capital maintenance data is most relevant "to determining what base buys for this type of investment".[40] Therefore, we further consider the activities associated with strategic optimisation (covering decommissioning of boreholes); strategic review of adits & wells; and surveys & enabling works to be outside of the scope of the asset health reopener.

Further information about the general rationale behind exclusions can be found in the Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix.

The sites, costs and associated exclusions by investment period, from the request are as set out below.

<table><tr><th>Site / Investment Name</th><th>Reason for removal</th><th>Cost (£)</th></tr></table></td><td></td><td></td></tr>
</table>

[39] Ofwat, 'Asset-Health-Assessment-Guidance.pdf', December 2025, p. 6
[40] Ofwat, 'Asset-Health-Assessment-Guidance.pdf', December 2025, p. 22

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	[redacted] Source Data: Query Response ref, OFW-SRN-CCP-017 – response (for date out of service), Southern Water, 'PR24 Cost Change Process Asset Health Investment Case: Boreholes', May 2026, Tables 15, and 17-19, Data Table Submission SRN Data Tables V02.		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	The need for investment is supported by our assessment that there is a sector-wide health issue for boreholes. This indicates that poor health of boreholes reflects a broader, systemic challenge which may require additional allowances.[41] We consider the company has presented sufficient and convincing evidence to demonstrate the need for a step change in boreholes capital maintenance to maintain long term asset health. This has been evidenced through its multi-factor, forward looking asset deterioration modelling and query responses in which the company has provided greater site level evidence of why additional investment is needed, with reference to current risk or forecast deterioration for each site, as well as asset-level evidence of risk (likelihood and consequence). This has supported a business case for intervention in assets with asset health scores 2 and 3 (i.e. not currently in poor condition). In addition, we accept the company's view of 'what base buys' (implicit allowance), which is clear and in line with a view of what base buys based on historical sector expenditure rates. This provides reassurance that the requested investment is incremental to base allowances, and that customers are not paying twice for investment.[42] There still, however, remain evidential gaps in demonstrating how need is defined and triggered at an asset level, alongside clear and transparent evidence of the assumptions, which give rise to the need case at the strategic level (e.g. the numbers and profiling of interventions required to achieve steady state, and the assumed cost per intervention		

[41] Further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'
[42] Our assessment and further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	(with sensitivity) that give rise to the need case set out in Figure 3 of the submission[43]). If the company fills these gaps in its evidence, it will have provided sufficient and convincing evidence to meet the requirements for 'Need for a step change in investment' (please see below). To achieve a pass at final determination, the company must provide sufficient and convincing evidence to demonstrate the above, including: • Transparent decision rules linking risk scores to intervention timing (i.e. why intervention is required now); • Evidence that the in-scope programme targets the highest priority risks; • Scenario analysis to evidence that the baseline assumption that existing base expenditure allowances fund repairs but not refurbishment/replacement does not bias the outcome of deterioration modelling; and • A clearer explanation of the PIONEER methodology, including constraints, trade-offs and selection rules. • Formal evidence of DWI support. If this evidence is not provided in response to our draft determination, we may conclude that the company has not demonstrated sufficient and convincing evidence to justify the need for a step change in investment for some or all of the proposed investment.		
Best option for customers	**Decision summary - Conditional Pass- Some Concerns**. The company demonstrates that optioneering has been undertaken but has not provided sufficient and convincing evidence to demonstrate that the selected interventions represent the best option for customers.	**Conditional Pass**	**10%** Conditions met (need +

[43] Southern Water, 'PR24 Asset Health Investment Case Boreholes', May 2026, p. 10

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Company evidence - The company presents an optioneering process and states that optimisation through the PIONEER tool has been used to prioritise interventions. It provides a flow process diagram, showing that they started with an unconstrained long list of 309 options which was narrowed down to 90 intervention options: by applying asset health index scores, narrowing through an intervention hierarchy, consequence of failure considerations and internal specialist review.[44] The company provides programme-level forecasts and scenario modelling demonstrating impacts across different investment scenarios, including projected improvements in turbidity sample failures and asset health outcomes across the programme. It also provides refurbishment, replacement and strategic optimisation programmes, setting out timelines for refurbishment and replacement activities. **Our assessment** - A credible high-level optioneering framework is presented. However, the company does not provide sufficient and convincing evidence at asset level to demonstrate that the selected programme represents best value for customers. In particular, the submission mainly demonstrates benefits at programme level rather than at scheme level. There is no clear linkage between individual interventions and quantified costs, benefits or risk reduction. Benefits are also only described qualitatively and only for limited example schemes. In addition, the intervention decision hierarchy appears relatively simplistic and is not clearly informed by quantified cost, benefit or wider value considerations.		best option): £29.5 million Conditions missed (need only): £26.55 million

[44] Southern Water, 'PR24 Asset Health Investment Case Boreholes', May 2026, p. 37, figure 23

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	To achieve a Pass at final determination, the company must provide sufficient and convincing evidence of: • Asset-level optioneering evidence, demonstrating that selected interventions outperform credible alternatives (e.g. refurbishment vs replacement) and represent best value; • Case studies (sample sites) showing current condition, risk, options considered, and justification for the preferred solution; and; • clear quantification of costs, benefits and risk reduction at scheme level; If this evidence is not provided, we may apply a 10% cost challenge to reflect insufficient evidence that the proposals represent the best option for customers.		
Robust and efficient costs	**Decision summary – Conditional Pass – Significant concerns.** The company demonstrates that they have used a structured costing approach but has not provided sufficient and convincing evidence to demonstrate that the proposed costs are robust and efficient. **Company evidence** - Costs are derived using a bottom-up methodology based on unit rates provided by a single supply chain partner and applied at site level according to specific borehole depth and the individual intervention. Indirect costs and corporate overheads are included in the total cost and applied as uplifts of 76% (indirect costs) and 12% (corporate overheads)[45]. High level cost breakdowns by scheme are included. The company has stated that further supplier engagement and benchmarking work is	**Conditional Pass**	**Up to 20% conditional challenge**

[45] Southern Water, 'Query Response 'OFW-SRN-CCP-007', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	ongoing and expected to continue through August 2026[46]. The company has also provided independent third-party commercial assurance to support their cost estimates. **Our assessment** - While the company provide some evidence of its proposed costs, it does not provide sufficient and convincing evidence to demonstrate that its costs are robust and efficient and represent best value. In particular, the company use one single supplier quotation, and do not provide evidence of: competitive procurement; cost validation against historical cost data; comparable schemes; or external benchmarking. Whilst the company has not provided benchmarking evidence or supplier quote comparisons to demonstrate efficiency of their cost estimates, they have third party commercial assurance. The third-party assurer has reviewed the cost estimation process and methodology and concluded that the company has provided a clear, well evidenced business case that sets out robust cost estimates. This assurance however is not sufficient to demonstrate efficiency taking into account the absence of external benchmarking evidence and the use of one supplier quotation which limits the robustness of the cost estimates provided. While the company states that benchmarking work is ongoing, no outputs have been provided and therefore the current submission does not show that cost efficiency has been tested or validated. In addition, transparency of the cost build-up is also limited. While the submission includes high-level cost breakdowns it does not provide a clear reconciliation of costs showing how assumptions and rates translate into total costs at the scheme level. To achieve a Pass at final determination, the company must provide sufficient and convincing evidence to:		

[46] Southern Water, 'Query Response 'OFW-SRN-CCP-007', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	• Demonstrate the robustness of direct costs, including an explanation on how unit rates have been scaled across interventions. • Demonstrate the efficiency of costs, through internal and/or external benchmarking, or other evidence such as third-party assurance or evidence of competitive procurement. • Provide a high-level cost build up at the individual scheme level to demonstrate the different cost components and their relationship to total cost for the scheme. If this evidence is not provided, we may apply a cost efficiency challenge of up to 20% at final determination. The total challenge applied across 'best option' and 'robust and efficient costs' will not be greater than 20%.		
Customer protection	**Decision summary – Some gaps.** The company provides sufficient and convincing evidence to demonstrate that customers will be protected if the company under-delivers against the requested additional investment, however, it does not provide any protection for the PR24 implicit allowance. We have therefore applied a price control deliverable (PCD) to the 'what base buys' estimate. **Company evidence** - The company does not propose a PCD for activities delivered by existing PR24 base expenditure allowances. The company proposes a PCD that covers the proposed additional investment. This PCD consists of three-sub elements to ensure delivery of the following activities, those are: refurbishment; replacements; and strategic studies.[47]	**Some gaps**	

[47] Southern Water, 'PR24 Asset Health Investment Case Boreholes', May 2026, pp. 62-70, Appendix L

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Our assessment - The absence of a PCD covering base allowances means that customers are not protected from the company in the event of non-delivery of its activities associated with base allowances. The company's proposed non-delivery PCDs are in line with our expectations set out in the asset health guidance document. To ensure activities associated with base allowances are delivered, a Base PCD will be applied to the 'what base buys' estimate provided by the company in the 'Need for Investment' gate of the submission. To enable us to protect customers, we propose to apply a PCD on the requested additional allowance which is tied to named schemes. Further detail on this PCD can be found in Cost Change Draft Determinations 2026 – Price control deliverables appendix.		
Investment delivery plan	**Decision - Adequate.** The company provides sufficient and convincing evidence to demonstrate that the in-scope programme is deliverable. **Company evidence** - The company states they have completed a deliverability assessment, considering factors such as technical feasibility, lessons learnt, supply chain engagement and phased delivery. The company also provides a risk mitigation register for refurbishment and replacement schemes. The company provides a templated phased programme for a singular replacement and singular refurbishment scheme, alongside a table providing the phasing for each borehole site.[48]	**Adequate**	

[48] Southern Water, 'PR24 Asset Health Investment Case Boreholes', May 2026, pp. 62-70, Appendix L

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Our assessment - The company provides sufficient evidence that the proposed refurbishment and replacement activities are deliverable. The company identifies delivery risks for the specific programmes of work alongside adequate information of the proposed phasing and timeline of the work.		

4.1.3 Gravity Sewer inspections

Assessment criteria	Assessment	Decision
Approach and Robust and Efficient Costs	**Decision summary** - The company has provided sufficient and convincing evidence that its sampling approach is appropriate and that its costs are efficient. We undertook a unit cost deep dive, because the proposed unit costs are significantly higher than the sector median unit cost. Following the unit cost deep dive, we propose to apply a 24.59% cost efficiency challenge, as the unit costs were constructed with the incorrect indirect cost rate. Specifically, Southern Water had estimated costs using indirect cost rates from non-infrastructure projects (76.5%). However, this is an infrastructure project, and so Southern Water's infrastructure rate (33.1%) should apply. Applying Southern Water's infrastructure rate (33.1%)[49] results in an allowed unit rate of £16.61 per metre, 31% above the median rate. This represents a cost challenge of 25%. In order to achieve a pass at Final Determination, the company must provide further evidence to justify why their cost per metre (£22.02 per metre) is so much higher than the sector median of £12.70 per metre.	**Conditional Pass – Some concerns**

[49] Southern Water, 'SRN15 Cost and Option Methodology, Technical Annex' , October 2023, Figure 9

	Additionally, Southern Water had estimated 'what base buys' (implicit allowance) as £0.848 million. For gravity sewer inspections, we concluded that what base buys should be zero because the representative inspection programmes funded through the cost change process are additional to business-as-usual inspection activities, such as the inspection of known high-risk sewers. Hence we have added the 'what base buys' to the allowance.	
Customer Protection	**Decision – Adequate**. The company provides sufficient and convincing evidence that customers will be protected if the company under-delivers against the investment. **Company Evidence** - The company proposes a price control deliverable (PCD) for the investment funded by the requested additional allowance. The additional allowance will fund a programme of random and representative inspections covering 0.5% of the company's gravity sewer network. This PCD consists of two-sub elements to ensure delivery of the following activities, those are: Inspections on sewers <= 165mm Diameter and Inspections on sewers > 165mm Diameter. The company provided separate non-delivery PCD rates for each respective sub-element. **Our assessment** - The company's proposed non-delivery PCD is in line with our expectations, as set out in the asset health guidance document, and aligns to the approach set out in the PR24 Final Determination. If the company under delivers, the funding will be returned to customers.	**Adequate**

A4.2 Large schemes gated process

A4.2.1 Large Gated Schemes – Southern Water – Sandown

The following table summarises our draft determination regarding Southern Water Sandown Water Recycling – (IWWRP) Isle of Wight Water Recycling Project Submission 2.

The company's proposal is to provide a new water recycling plant, adjacent to the existing Sandown Wastewater Treatment Works to provide 8.5 Ml/day deployable output, reducing reliance on constrained mainland abstractions. Within the submission, Southern Water requests a claim of £182.54 million through the cost change process.

In our assessment of Submission 2, we focussed on:

- cost evidence to enable us to make decisions on cost allowances for schemes; and
- the quality of the submission in line with our large scheme gated guidance to ensure the sufficient development and maturity of the scheme.[50]

Overall, we have concluded that Sandown Water Recycling – (IWWRP) Submission 2 is "Meets Expectations " – our reasons for this score can be found in the Sandown Water Recycling quality assessment table below. Sandown Water Recycling – (IWWRP) should progress to delivery phase and we propose an efficient allowance for delivery of this programme as part of our draft determination. Our reasons for this allowance can be found in our deep dive assessment in the Sandown Water Recycling deep dive assessment table below.

Sandown Water Recycling quality assessment

Overall Decision	Meets Expectations

[50] Ofwat, 'PR24 Large Schemes Approach Guidance', August 2025

Assessment Area	Summary of quality assessment
Solution Delivery Plan	The company has provided sufficient and convincing evidence that the proposed solution is feasible, and there has been material progression in scheme development since Submission 1. Evidence has been provided across the principal assessment areas, including design development, feasibility, planning and delivery, stakeholder engagement, procurement arrangements, and cost development. Supporting information is generally presented through the main submission alongside technical appendices. The company has provided evidence that the proposed solution is feasible, and that there has been progress in design. This includes the completion of a technical due diligence exercise, early contractor involvement, and stakeholder engagement, resulting in design evolutions. Engagements have taken place with Natural England on designated sites, habitats and species potentially affected by both the Eastern Yar and Sandown outfalls. Natural England have also been engaged to discuss Habitats Regulations Assessment covering Special Area of Conservation, Special Protection Area and Ramsar) such as Solent and IoW Lagoons Special Area of Conservation, Solent and Southampton Water Special Protection Area and associated SSSIs for in-combination and cumulative effects. The evidence supports a provisional view that the preferred water recycling plant option is technically credible and provides a reasonable basis for assessing the scheme at this stage. Southern Water has taken, where possible, the option best suited to conserving beauty of the Isle of Wight area, with both the design and the route of the pipeline and ancillary structures. [51]

[51] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, section 4.3.5 pp. 18-19

Assessment Area	Summary of quality assessment
	Southern Water has not provided extensive final design information, but there is sufficient evidence throughout the submission to show the design maturation which is expected as this stage of scheme development. There are outstanding recommendations from the technical due diligence and technical assurance which will need to be addressed. Planning and pre-planning activities are supported by evidence of consultation, third-party agreements, consents and permits. The planning application remains pending, expected completion is July 2026. The company has provided evidence that statutory stakeholders have been engaged with, however state the Environment Agency have submitted a formal response to the planning application, raising an objection on specific technical matters. Southern Water state it is working through this. The company has demonstrated evidence that the Drinking Water Inspectorate have confirmed the proposed process is in principle compatible with regulatory expectations. The company has provided a detailed cost estimate, totalling £179.99 million, supported by a cost methodology and estimate appendices. Southern Water has provided an independent third-party benchmarking assessment, which identified a variance of -8.7% on the total cost estimate, although net direct costs are around 5.6% above the benchmark. Southern Water have provided a Cost Benefit Appraisal (CBA) in Annex 3A to evidence the selection of the preferred option, Option 1A, following an optioneering process. Although Option 1A does not present the lowest whole life cost (WLC), it was selected through a Management of Value (MoV) study undertaken in May 2023 on the basis of its alignment with strategic drivers. However, the CBA has not been updated since 2023, despite subsequent and significant changes to both capex and opex, as recorded in the Change Log (Annex 5D). Independent commercial assurance (Appendix 10C) recommends that the CBA is refreshed to incorporate these updated costs and confirm that Option 1A continues to represent best value for customers. At present, no updated assessment has been provided to demonstrate that Option 1A still performs best against value-for-spend metrics or that its strategic alignment justifies the WLC premium. Furthermore, independent technical assurance (Appendix 10B) has raised concerns regarding the robustness of the MoV study, noting the limited number of participants and lack of transparency around the derivation of weightings.

Assessment Area	Summary of quality assessment
	Southern Water has set out its delivery model and supply chain arrangements. A preferred delivery partner for the scheme has been identified and the company have undertaken Early Contractor Involvement, including monthly steering group meetings to inform design and cost estimates. The intent is clear, although no evidence has been provided demonstrating that the delivery partner has have been formally appointed, and supplier capacity remains a risk. The company have provided a detailed delivery plan, setting out key milestones, activities and dependencies. However, the independent technical assurance raises the Delivery Plan table (DPW4) as a material issue. Notably, the programme dates do not algin with programme presented and the costs presented do not align with current budget. Overall, the submission demonstrates a mature level of scheme development and provides relevant supporting evidence across the principal assessment areas. There is some residual uncertainty notably on demonstrating best value for customers. As the company progresses towards delivery of the scheme, it should demonstrate the validity of the MoV study and provided updated cost benefit analyses with recent cost data.
Assurance	The company has provided both technical and commercial assurance documentation as appendices to the submission. These documents provide supporting evidence that the proposed solution, associated costs and delivery arrangements have been subject to internal governance processes.
Change Log	The company has provided a change log as an appendix to the submission using the template provided. The change log records a wide range of changes between submissions and includes associated impacts on opex, capex, totex and other relevant metrics. The changes recorded reconcile the difference in the company's totex request between Submission 1 and Submission 2, which is around £9.68 million.

Assessment Area	Summary of quality assessment
	The company has provided evidence of the scope changes affecting the scheme, including site building designs to incorporate staff welfare, PPE storage and a visitors' centre, amended outfall design, pipeline routing and other design elements which have been advanced.
Risk Register	The company has provided a risk register as an appendix to the submission, including identifiers, categorisation, descriptions, potential cost impacts and proposed mitigation measures. The risk register identified risks across a range of areas to scheme delivery, and estimated cost impacts associated with individual risks. It includes a narrative discussing impact to programme, but with no underlying quantification.

Sandown Water Recycling deep dive assessment

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Southern Water requests £182.54 million through the cost change process for its Isle of Wight Water Recycling Project. This is based on a submitted total package cost of £204.48 million, less a £21.940 million development allowance. The package is for the provision of a new water recycling plant (WRP), taking a crude side stream from Sandown wastewater treatment works (WwTW) for advanced treatment and returning treated water via a buried pipeline to the Eastern Yar.	**Pass**	-
Need for a step change in investment	The investment partly meets the criteria for enhancement investment and additional customer funding. The company does not provide sufficient and convincing evidence that investment for	**Conditional Partial Pass**	**Remove £15 million net zero costs**

<table>
<tr><th rowspan="2">Assessment criteria</th><th rowspan="2">Assessment</th><th colspan="2">Decision</th></tr>
<tr><th>Criteria</th><th>Adjustment (applied and/ or conditional)</th></tr>
<tr><td></td><td>some additional scope items is necessary or appropriate to fund via the large gated scheme process, and that some of the costs have not already been paid for by customers.

Company evidence – We consider that Southern Water provides sufficient and convincing evidence that enhancement is needed to meet a supply demand balance deficit identified in its water resources management plan 2019 (WRMP 19) and final draft WRMP24 for the Isle of Wight water resource zone (WRZ). Southern Water has evidenced that the Isle of Wight Water Recycling Project was first identified in the WRMP19 as part of the preferred strategy for Southern Water's Western Area. The scheme was selected as the preferred option to meet a deficit of up to 10Ml/d. The fdWRMP24 shows a forecast deficit of up to 14.25Ml/d under severe drought conditions by 2050, being driven by abstraction licence reductions to protect chalk stream habitats and wider ecological value.[52] Southern Water provides evidence of the agreement made under section 20 of the Water Resources Act 1991 (the section 20 Agreement), entered into with the Environment Agency in 2018. This includes an enhanced commitment to deliver the WRMP19 Western Area preferred strategy, triggered by abstraction reductions at River Test and Itchen. Southern Water has provided evidence that the scheme will provide 8.5 Ml/day drought-resilient benefit to the Isle of Wight WRZ. [53]</td><td></td><td>Conditional £22 million for target risks included

Conditional £9.49 million for transitional spend</td></tr>
</table>

[52] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, p.8, section 2.1
[53] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, p.7, table 1

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Our assessment - We consider that the evidence demonstrates a need for a step change in investment to provide water resilience for the Isle of Wight WRZ. The scheme has been identified as part of the preferred strategy for increasing water resilience since WRMP19. For net zero/ additional solar (£15.00 million), we consider this is not a core regulated business activity. The company has also failed to provide sufficient and convincing evidence that this is needed to enable the proposed investment and/ or that this is linked to the original scope of the large gated scheme. Therefore, we propose to reject this scope item. The company also requests funding for transitional expenditure (£9.49 million).[54] We consider that these costs have already been funded through development allowances and transitional funding at PR24. Therefore, it is not appropriate to fund this transitional expenditure through the cost change process.[55] We conditionally include these costs in the allowance for draft determination with the company needing to evidence why these are now valid. We also propose to make the allowance for the costs identified by the company as 'target risk exposure' (£22.19 million)[56] conditional on the company providing details and supporting evidence on the scale and likelihood of the risk impacts identified by the company within its risk register. The company should present this additional evidence as part of its representations to our draft determinations. If the company fails to provide sufficient and		

[54] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, Table 4
[55] Ofwat, 9.-PR24-final-determinations-Expenditure-allowances.pdf, February 2025, p. 223
[56] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, Table 4

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	convincing evidence of these impacts, we will remove the corresponding allowance of £22 million in our final determination.		
Best option for customers	**Company evidence** - Southern Water provides some evidence that it has considered a range of options for addressing the need. Southern Water state the unconstrained list of options, such as alternative resource developments, transfers, demand management, and indirect potable reuse were identified through the regional planning process. Following the selection of the water recycling project as the preferred strategy, Southern Water have provided evidence that further optioneering within the selected strategic route was undertaken, developing and assessing scheme considerations and discharge options. Southern Water has selected Option 1A as the preferred option, which can be summarised as a crude side-stream membrane bioreactor with dual-pass reverse osmosis/ultraviolet/advanced oxidation process and discharge to the River Yar. Southern Water state that this option provides robust biology, lower risk of tertiary treatment failure and is proven technology at comparable facilities.[57] Southern Water provides evidence that Option 1A is not the most cost beneficial solution. The company provides evidence of a Management of Value (MoV) study completed in 2023, to resolve tension between lowest cost and highest assurance. Through the MoV study, Southern Water states that Option 1A has the greatest alignment with the strategic drivers selected:	**Partial Pass**	**10%**

[57] Southern Water, 'CCP005 - LSG Sandown Submission 2', May 2026, pp. 9-10, section 3

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	meeting commitments and expectations, reliable and controllable operation, regulators and customer acceptability, minimise environmental impact, reduce water treatment work pressure, and improve natural capital. The independent technical assurance provided cites this study as a material concern as the workshop was delivered with only three participants and provides no detail behind how the weightings were derived. Southern Water has provided CBA outputs that shows capex, opex, embodied carbon and whole life costs and benefits for a 30-year net present-value. The whole life cost assessment has not been updated since 2023, despite changes in capex and opex included in the change log. No evidence is provided to demonstrate Option 1A still performs the best in terms of value-for-spend metrics, and that the alignment with strategic drivers still justifies the whole life cost premium.[58] **Our assessment** - Southern Water provides some evidence of the optioneering carried out, however, we do not consider that Southern water provides sufficient and convincing evidence that the treatment design selected represents the best option for customers. The evidence provided outlines what options were considered and explains how the preferred option was selected, however it does not provide sufficient evidence that the preferred solution is the best option for customers.		

[58] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, p.25, section 5.3.1

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	The evidence provided explains how the company has come to the view that Option 1A aligns best with the strategic drivers selected, however we agree with the assurer that the limited number of participants and transparency reduces the validity of the study and its ability to provide evidence that this is the best option for customers despite the additional whole life cost. Whilst the CBA has been undertaken and provides useful context, we do not consider that the CBA provided has been recently updated to reflect the latest cost changes and therefore cannot effectively evidence that Option 1A is the best value option. We therefore apply a 10% cost adjustment to the requested amount. The company should look to further validate the MoV study and update cost benefit analysis with recent cost data to provide sufficient and convincing evidence that this is the best option for customers.		
Robust and efficient costs	**Company evidence** - Southern Water has provided detailed cost information, including cost estimate summary, benchmarking [59]evidence and commercial assurance.[60] The evidence separates key elements of the cost stack, including direct works, indirect costs, risk, corporate overheads and biodiversity net gain. The company provides evidence that their benchmarked costs are efficient. The benchmark report[61] undertaken on 98.33% of the net direct costs, however it is not clear what benchmarking coverage there is on indirect costs. The benchmarking concludes that the	**Pass**	

[59] Southern Water, 'CCP005 - LSG Sandown Submission 2', May 2026, p.25, section 5.3.2
[60] Southern Water, 'Sandown Appendix 10C – Commercial Assurance', May 2026
[61] Southern Water, 'Sandown Appendix 5E – Benchmarking Report', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	overall project total shows a -8.47% variance to the benchmark.[62] Net direct costs are around 5.63% higher than the benchmark. Southern Water provides independent commercial assurance which states there are no areas where the company uses solutions which exceed the specified requirements. Southern Water has provided evidence of cost movement since submission 1. Southern Water has indicated in the change log that the changes are mostly due to scope maturation, resulting in changes, both positive and negative mostly to capex. Although total costs have increased by £9.68 million, capex has decreased since submission 1 by 7%[63]. One change has been identified to opex, resulting in a £1.22 million per year increase[64]. Southern Water state this is due to a more detailed opex assessment completed by an external contractor completed in late 2024. The independent assurance confirms the changes are reasonable. **Our assessment** - We consider that Southern Water has provided sufficient and convincing evidence that its costs are robust and efficient. Cost breakdowns are provided along with appropriate benchmarking, and engagement with supply chain partners. Cost changes have been clearly explained and are reasonable.		

[62] Southern Water, 'Sandown Appendix 5E – Benchmarking Report', May 2026, p. 13, table 4.4
[63] Southern Water, 'Sandown Appendix 10C – Commercial Assurance Report', May 2026, p. 3
[64] Southern Water, 'Sandown Annex 5D – Change Log', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	We are satisfied that the material scope of the package has been refined and no increase to scope is expected. Delivery risks should be closely monitored through the quarterly reporting and updates from the Company. No efficiency challenge is proposed.		
Customer protection	**Company evidence** - Southern Water proposes a PCD that tracks water available for use (WAFU) in mega litres of water per day. The PCD is based on the supply of 8.5 Ml/d to the IoW WRZ with a constant minimum flow to meet the requirements of the fdWRMP24. The proposed benefits realisation date is proposed as September 2031, subject to favourable planning being obtained in July 2026. The proposed PCD includes both a non-delivery rate, aligned with the PR24PCD107 Water Supply and Demand Balance PCDs model, and time incentive mechanism. [65] **Our assessment** - We consider that the approach proposed by Southern Water contains relevant features and meets the criteria set out in our large gated scheme guidance. It is consistent with the PCDs we applied to water supply schemes, including water recycling schemes. However, given the scale of the proposed investment we consider that the proposed PCD requires significant improvement and that the proposed non-delivery rate would not provide sufficient protection to customers in the event of non-delivery or under-delivery of the funded scope.	**Significant improvement required**	

[65] Southern Water, 'CCP005 – LSG Sandown Submission 2', May 2026, pp. 35-36, section 7

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	We propose to retain the proposed output-based PCD mechanism for the scheme in the Isle of Wight WRZ However, we will apply a significantly higher non-delivery rate on a per-Ml basis to the WAFU delivered by the scheme. This ensures that, in the event of non-delivery, the full value of the scheme is returned to customers. We also propose a time incentive PCD, with more details available within Cost Change Draft Determinations 2026 – Price control deliverables appendix.		

A4.2.2 Large Gated Schemes – Southern Water – WTW 1

The following table summarises our draft determination regarding Southern Water WTW 1 Submission 2.

The company's proposal is for the replacement of existing treatment processes at the site for the purpose of supply resilience, addressing six Final Enforcement Order (FEO) actions, five non-FEO actions and new capacity added to meet the demand increase outlined within Southern Water's latest water resources management plan (WRMP).[66] Within the submission, Southern Water requests £322.965 million through the cost change process, in addition to the development allowance provided at PR24 of £20.526 million. This is part of Southern Water's wider plan to improve site resilience and reliability and mitigate vulnerabilities across its wider network water supply zones.

In our assessment of Submission 2, we focussed on:

- cost evidence to enable us to make decisions on cost allowances for schemes; and
- the quality of the submission in line with our large scheme gated guidance to ensure the sufficient development and maturity of the scheme.[67]

Overall, we conclude that the WTW 1 Resilience Submission 2 falls short of meeting expectations in some areas, as set out in more detail in the WTW 1 Resilience quality assessment below. WTW 1 Resilience should progress to delivery phase and we propose an efficient allowance for delivery of this programme as part of our draft determination, as set out in our deep dive assessment in the WTW 1 Resilience Deep Dive Assessment below:

[66] Southern Water, Water Resources Management Plan, Final Draft WRMP 2024, May 2025
[67] Ofwat, 'PR24 Large Schemes Approach Guidance', August 2025

WTW 1 Resilience quality assessment

Overall Decision	Falls short of meeting expectations in some areas

Assessment Area	Summary of quality assessment
Solution Delivery Plan	Submission 2 covers the key areas expected at this stage of scheme development. Evidence has been supplied to demonstrate progress in design, feasibility, planning, procurement, delivery planning and cost development. Final design information includes process flow diagrams, supporting design and detailed appendices covering process, MEICA and 3D modelling. The submission also sets out how the proposed solution addresses relevant water quality, environmental and wider regulatory considerations. Optioneering has been undertaken and mainly covered within Submission 1. For additional scope items that were not within Submission 1, insufficient optioneering has been undertaken by the company. This does not evidence that an appropriate number of options and range of intervention types have been considered. Planning and pre-planning activities are supported by evidence of consultation, third-party approvals and consent strategies, although in several areas the company has demonstrated engagement rather than secured approvals. In particular, planning applications remain pending and there is limited evidence of formal agreement from local planning authorities. Southern Water has outlined that the WTW is located adjacent to, but outside the South Downs National Park (SDNP), and has maintained the design to SDNP dark skies policies. Southern Water has outlined the Habitats Regulation Assessment (HRA) that is currently being undertaken, due to the River Itchen's international importance for wildlife as a Site of Special Scientific Interest (SSSI) and a Special Area of Conservation (SAC). The company has demonstrated sufficient engagement with a broad range of stakeholders, including the Drinking Water Inspectorate (DWI), Environment Agency, planning authorities, local authorities, customers and

Assessment Area	Summary of quality assessment
	utility providers. Evidence provided indicates that the DWI supports the preferred solution and associated mitigation measures through the Final Enforcement Order process. The company has not demonstrated sufficient engagement with the South Downs National Park Authority or Natural England in relation to its statutory environment/ ecological obligations. The company has also provided a detailed cost estimate totalling £361.464 million, supported by methodology and cost estimate appendices. Procurement arrangements appear well advanced, with the company setting out its delivery model, supply chain arrangements and governance framework, including appointment of a delivery partner. A detailed delivery plan has been provided, setting out key milestones, activities and dependencies through planning, construction and commissioning. Overall, the submission demonstrates a more mature level of scheme development than at Submission 1, and provides supporting evidence across most assessment areas, although some key external engagement, such as South Downs National Park Authority or Natural England, as well as aspects of cost efficiency remain areas of residual uncertainty. With regard to relevant engagement with other stakeholders, as the company progresses towards delivery of the scheme, it should demonstrate that is has obtained such approvals and how any conditions attached to those approvals are addressed in the proposed design.
Assurance	The company has provided both technical and commercial assurance documentation as appendices to the submission. These documents provide supporting evidence that the proposed solution, associated costs and delivery arrangements have been subject to internal assurance processes.

Assessment Area	Summary of quality assessment
	Technical assurance has been provided through a dedicated appendix accompanying the submission. Commercial assurance has also been provided through a separate appendix.
Change Log	The company has provided a change log as an appendix to the submission using the template provided. The change log records a wide range of changes between submissions and includes associated impacts on opex, capex, totex and other relevant metrics. The changes recorded reconcile the significant difference in the company's totex request between submission 1 and submission 2, which is approximately £170 million. The company has provided evidence of scope changes affecting the scheme, including amendments to ceramic membrane technology and footprint requirements, granular activated carbon (GAC) provision, control room arrangements and other design elements. The change log also identifies benefit-related changes, including those associated with future growth and demand requirements, changes in standards, net zero considerations and biodiversity net gain commitments, together with their associated cost impacts.
Risk Register	The company has provided a risk register as an appendix to the submission. The register includes risk identifiers, categories, descriptions, potential cost impacts and proposed mitigation measures. The risk register identifies risks across a range of areas relevant to scheme delivery. Risks relating to scope, requirements and intended benefits are captured under the 'Scope, Requirements & Benefits' category. Programme-related risks are addressed through categories including 'Planning, Consents and Stakeholder Approvals' and 'Supply Chain Performance'.

Assessment Area	Summary of quality assessment
	The register also includes estimated cost impacts associated with individual risks, providing visibility of potential financial exposure across the scheme. The company has identified mitigation measures for the risks recorded within the register. Cost impacts are provided for individual risks.

WTW 1 Resilience Deep Dive Assessment

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Southern Water requests £322.97 million through the cost change process for its WTW 1 water treatment works (WTW) resilience scheme. This is based on a submitted total package cost of £361.46 million, less a £20.53 million development allowance and further scheme costs allocated to the 2030-35 period. Southern Water states that the package is intended to improve resilience at WTW 1 WTW and address 104 Final Enforcement Order (FEO) actions, and an additional 5 non-FEO actions. The submitted package includes new treatment process units to provide additional capacity up to 91 Ml/d, supported by a number of enabling works and additional scope items.	**N/A**	-

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Need for a step change in investment	The investment partly meets the criteria for enhancement investment and additional customer funding. The company does not provide sufficient and convincing evidence that investment for some additional scope items is necessary or appropriate to fund via the large gated scheme process, and that some of the costs have not already been paid for by customers. **Company Evidence** – The company lists the key FEO requirements in a table within its Submission 2 document[68], alongside regulatory dates for each requirement. In its Submission 2 document, the company also provides a description of the six major regulatory drivers and of 2025-30 investment.[69] These are: • Increase in demand and need to increase output capacity (i.e. WTW output) from current WTW output of 80 million litres per day (Ml/d) to 91 Ml/d, which is described in the company's latest water resources management plan 2024 (WRMP24). The company states the new assets to be built will increase capacity and resilience to drought. The company does not provide clarity on how the Phase 4[70] works for the site will improve resilience to drought. • A change in raw water source (Havant Thicket Reservoir) which necessitates a change in process technology at the site. This is due to the current process	**Conditional Partial Pass**	**-£41.49 million**

[68] Southern Water, 'CCP004 – LSG WTW 1 WSW Submission 2', May 2026, Table 2.2.1, pp.12
[69] Southern Water, 'CCP004 – LSG WTW 1 WSW Submission 2', May 2026, p.8
[70] 'phase 4 works' refers to the construction and commissioning of a new pre-disinfection treatment process at WTW 1 WSW (ceramic membranes, granular activated carbon, etc.)

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	streams inability to provide reliable pre-disinfection to meet existing water quality standards and references two FEO conditions. The company does not however provide water quality data to support this statement. • An increase in capacity of incoming power supply (2.6MVA to 6.6MVA). This is to provide additional supply for increased treatment processes. • Improving taste/odour treatment through installation of a new carbon system (i.e. Granular Activated Carbon). The company links this to a DWI FEO objective. • Review and remediation of a borehole access bridge. The company links this to another DWI FEO objective. • A need to complete works associated with site control systems, also referencing a DWI FEO objective. In its Submission 2 document[71] as well as subsequent query responses, the company lists a number of additional scope items on top of the original PR24 scope (referred to as 'emerging scope'). The additional need for scope items are described as below: • Relocation of control room and others.[72] [redacted]		

[71] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, pp. 19-20
[72] "Others" refers to fencing, excavation, telemetry, CCTV, kiosks, landscaping, internal water/ wastewater systems, gas/ electric appliances, etc.

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	[redacted] • Additional energy supply, i.e. generator. The company states that a fourth back-up generator is required on site for resilience purposes in case of Distribution Network Operator (DNO) supply failure. This is based on the future power requirements of the expanded site following Phase 4 completion. The company also provides information on current generator ratings, site loading, generator sizing/ specifications, and further considerations. • Replacement of solar farm. The company states this investment is needed as the Phase 4 works will be carried out on a current solar farm. Therefore, in order to maintain renewable capacity at the site, it requires reinstatement. [redacted]		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	• Rapid Gravity Filter (RGF) backwash flowmeters, additional chlorine storage and additional chlorine contact vessels. The company references changes in demand/ compliance standards as driving the investment need. The company also provides information on investment drivers, current onsite set up and issues and optioneering. • Additional solar panels, i.e. Net Zero ambition. The company states this investment is required to meet its Net Zero ambitions and would be in extension to the replacement of solar farm referenced previously. • Additional chlorine storage - the company provides information on investment need (e.g. sizing, assumptions), current operations and risks, site output, Ct (measure of chlorine concentration and contact time) value requirements, best practice updates (WRc), figures, drivers and storage options considered. • Additional chlorine contact vessels - the company provides information on drivers (e.g. no disinfection redundancy, design of vessels currently, strategic site importance, best practice updates (WRc) and optioneering). To account for overlap with base expenditure funding, the company calculates an 'Implicit Allowance' figure (£4.8 million) in relation to the additional works[73]. This is based on a triangulation between two top-down methods and a bottom-up method. The top-down methods apportion water base capital costs to the relevant site based		

[73] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, pp. 24-25, Section 5

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	on proportion of households served. The bottom-up method calculates the implicit allowance based on historical 2020-25 water base capital costs for the relevant site. **Our Assessment** - The company provides sufficient and convincing evidence of the need for investment for the main scope of work (i.e. new pre-disinfection treatment solutions) enhancement investment,[74] the main drivers being an increased site capacity (80 Ml/d to 91 Ml/d) and the need to treat different sources water in the future (i.e. Havant Thicket reservoir). The company also references a number of DWI FEO objectives to support. The company provides sufficient and convincing evidence that the main scope items are driven by regulatory requirements outside of management control. The company does not provide sufficient and convincing evidence of the need for some additional scope items within its Submission 2 document. The company does not provide sufficient and convincing evidence of investment need for RGF backwash flowmeters, replacement of solar farm, net zero/ additional solar expenditure. For RGF backwash flowmeters (£0.17 million), we do not consider this appropriate to fund via the large gated scheme process. The RGFs at WTW 1 are to be replaced by		

[74] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, pp. 11-12, Section 2.2

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	new pre-disinfection treatment units, it is not related to the Phase 4 work[70] in scope of this scheme. For replacement of solar farm (£3.66 million), the company describes this as a like-for-like replacement of an existing asset. Enhancement allowances should not fund like for like replacement costs, but enhancement related costs. The company has not provided sufficient and convincing evidence to show what proportion of the cost is to enable the proposed enhancement works and how much is like-for-like replacement of assets which should be funded through base allowances or the company's non-regulated business. For net zero/ additional solar (£15.00 million), we consider this is not a core regulated business activity. The company has also failed to provide sufficient and convincing evidence that this is needed to enable the proposed investment and/ or that this is linked to the original scope of the large gated scheme. Therefore, we propose to reject this scope item. The company also requests funding for transitional expenditure (£15.66 million), which is a new cost that was not included within Submission 1. These costs have already been funded through development allowances and transitional funding at PR24[75]. Ofwat considers that the inclusion of a 12% (rather than the standard 6%)		

[75] Ofwat, PR24-FD-CA01-Transition-accelerated-expenditure-programme-model-Southern-Water, December 2024 (download)

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	development allowance for the scheme at PR24 was, in part, to account for any transitional costs required for further scheme development. As made clear in the PR24 final determinations, it is not appropriate to fund this transitional expenditure.[76] For additional energy supply (i.e. 'Additional Generator' (£6.99 million)), it is unclear whether the costs associated with biodiversity net gain (BNG) and power supply (£5.93 million), specifically with the power supply elements, have been double counted. We queried the company on this, but the response was unclear on whether the cost for BNG and power supply is inclusive of costs for the additional generator. We expect the company to provide more information to clarify whether any costs for the additional generator are included in the BNG and power supply costs. We also have concerns on potential for base overlap regarding power asset elements, as highlighted in PR24 Final Determination for this scheme.[77] Regarding the company's calculation of implicit allowance, we do not consider this method to be appropriate to identify base overlap for enhancement cost claims. In PR24, we assessed base overlap as part of the need for enhancement allowances by considering whether any elements of the proposed investment are base expenditure related activities. Our approach was to not provide enhancement allowances for		

[76] Ofwat, ' 9.-PR24-final-determinations-Expenditure-allowances.pdf', February 2025, pp.222-224
[77] Ofwat, 'PR24 FD CA31 Water Resilience enhancement expenditure model' December 2024, sheet: 'SRN WTW'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	base related elements and to only provide enhancement allowances for the enhancement elements of the investment. We propose to follow this same approach for enhancement related cost change process claims. We have adopted this approach in the assessment presented above. **Detailed decision** - The investment partly meets the criteria for enhancement investment and additional customer funding. Therefore, we propose a challenge of £41.49 million in total in relation to need for a step change in investment. This includes removal of costs associated with RGF backwash flowmeters (£0.17 million), replacement of solar farm (£3.66 million), net zero (£15.00 million) and transitional expenditure (£15.66 million). We also propose the removal of additional generator (£6.99 million) due to potential double counting with BNG and power supply associated costs. We ask the company to provide further information to clarify this, in addition to base overlap concerns for power asset element costs raised previously at PR24 for this scheme. We also propose to make the allowance for the costs identified by the company as 'target risk exposure' (£24 million) conditional on the company providing details. This expenditure is comprised of £6.63 million for 'Target Risk Exposure – Ceramic Membrane' and £17.37 million for ' Target Risk Exposure – All other Plant, Equipment and Assets'.[78] These values are based on class ranges set out in tables in the		

[78] Southern Water, 'WTW 1 Annex 5B_11A - LSG Costc Ofwat Template – Final', May 2026, Sheet '3. Cost Breakdown'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Submission 2 document[79]. Details on the likelihood and consequence of these risks, and why the values are reliable is missing. It is also unclear why a large risk component is needed given the multiple stages this scheme has already passed through in its development (WRMP24, business plan and PR24 determinations, and large scheme submission 1). The company should present this additional evidence as part of its representations to our draft determinations. If the company fails to provide sufficient and convincing evidence of these impacts, we will remove the corresponding allowance of £24 million in our final determination. We ask the company to provide sufficient and convincing evidence that: • For additional energy supply costs (i.e. 'Additional Generator'), we expect the company to provide an explanation as to whether costs associated with this scope area not already captured within the BNG costs and how they are different. • Base overlap has been considered and accounted for in costs related to power asset elements in the for BNG and power supply (as raised in PR24 FD)[77] • Base overlap has been considered and accounted for in the costs for replacement of solar farm. Clarify whether this cost is relocation of existing solar farm assets to enable the Phase 4 works or replacement of existing		

[79] Southern Water, 'CCP004 – LSG WTW 1 WSW Submission 2', May 2026, table 5.2.9

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	solar farm assets. If both, clarify the proportion of costs pertaining to relocation and those for replacement. • Evidence to support the statement that current site processes will be unable to provide "reliable pre-disinfection to meet existing water quality standards" in the context of future changes in raw water source (i.e. Havant Thicket reservoir) and that the new pre-disinfection treatment will be able to treat the water effectively. • Provide details and supporting evidence on the scale and likelihood of the risk impacts identified by the company within its risk register.		
Best option for customers	**Company Evidence** – For the main pre-disinfection treatment solution (Ceramic Membrane, GAC, etc.), the company provides information to justify the choice of option in both its Submission 1 document[80] showing an unconstrained list of nine options. Submission 2 document showing four shortlisted options[81] and an external appendix which expands on options comparison informing the preferred choice[82]. Options are compared using Whole Life Benefit, Whole Life Cost, strategic considerations and carbon. The company provides further engineering and technical considerations to supplement the chosen solution:[83] 1) extensive practical data of method used to support method chosen, 2) ceramic membrane filtrate offers	**Conditional Pass**	**-£2.81 million**

[80] Southern Water, 'WTW 1 Resilience Submission 1', May 2026, pp. 10-11, section 3.2
[81] Southern Water, 'CCP004 – LSG WTW 1 WSW Submission 2', May 2026, pp. 13-16, section 3.1
[82] Southern Water, 'WTW 1 Appendix 3A – R&V 3.2 Shortlisted Scorecard', May 2026
[83] Southern Water, 'CCP004 – LSG WTW 1 WSW Submission 2', May 2026, p. 16, section 3.1

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	better turbidity/ pathogen removal compared to other conventional treatment methods and 3) ceramic membrane footprint requirement is less than other solutions and no additional land purchase is required to facilitate this option. For additional scope items, the company provides information to justify the choice of option via a query response[84] for scope items pertaining to additional chlorine storage and additional chlorine contact vessels. For additional chlorine storage, the company provides information on five options considered. These are compared on the basis of chlorine dose (mg/l) and flowrate of the site (Ml/d) being planned for, the company highlights sizing based on a 10-day rolling average as the preferred option. For additional chlorine contact vessels, the company provides information on two options considered. These reflect the two options of the ceramic membrane supplier. **Our Assessment** - For the pre-disinfection treatment solution (Ceramic Membrane, GAC, etc.), the company provides sufficient and convincing evidence that a number/ range of options/ interventions have been considered. For additional scope items, the company does not provide sufficient and convincing evidence that an appropriate number of options and range of intervention types have been considered. The company does not provide sufficient and convincing evidence of a similar level optioneering/ cost benefit appraisal for the additional scope items (e.g.		

[84] Southern Water, Query response 'OFW-SRN-CCP-021', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	replacement of solar farm, additional generator, access road), via quantitative cost benefit analysis. The company provides sufficient and convincing evidence that the chosen preferred option for the pre-disinfection treatment solution is the 'best option' with information in its Submission 2 document and a separate appendix. **Detailed Decision -** For the pre-disinfection treatment solution (Ceramic Membrane, GAC, etc.), no additional evidence is required. For the additional scope items (Control Room Relocation, Additional Generator, etc.), additional evidence of optioneering and demonstration that the best option has been selected is required. Therefore, we apply a 10% challenge to three of the remaining Emerging Scope elements – this will include [redacted] (£22.13 million), Additional Chlorine Bulk Storage Tank (£3.57 million), Additional Contact Vessels (£2.40 million), the total challenge applied will be £2.81 million. [redacted] (£1.21 million) has not been included in this challenge as there is unlikely to be alternative compliant options. We also do not include Additional Generator (£7.00 million) in this challenge as it has been challenged under a different area, however we still expect evidence of optioneering and demonstration that the best option has been selected for this emerging scope element also. To achieve a Pass at final determination for the Best Option criteria, the company must provide sufficient and convincing evidence of:		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	• Quantitative cost benefit analysis to support the chosen option and evidence that the best option for customers has been selected for four additional scope items (Control Room Relocation, Additional Generator, Additional Chlorine Bulk Storage Tank and Additional Contact Vessels) If this evidence is not sufficient and convincing, we will consider that best option for additional scope items has not been sufficiently demonstrated and we may challenge the proposed investment in our final decision.		
Robust and efficient costs	**Company Evidence** - The company provides a third-party benchmarking report[85]. In this report, a portion of the scheme costs are discussed and compared with external benchmarks. The report covers cost estimate method, indirect costs, biodiversity net gain costs, corporate overheads, net directs, among other items. In terms of benchmark scope, costs for Net Direct Works (£128.31 million), Contractor & Client Indirect Costs (£98.16 million) and Biodiversity Net Gain (£4.82 million) are covered, with an overall average variance of 8.46% above benchmark. The company does not provide benchmarking evidence for the remaining costs, which account for approximately £110 million in its submission, it states in a query response[86] that these costs are extrapolated from those which were benchmarked and provides an	**Conditional Pass**	**8.46%**

[85] Southern Water, 'WTW 1 Appendix 5C - Benchmarking Report', May 2026
[86] Southern Water, Query response 'OFW-SRN-CCP-023', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	explanation of cost build up from the direct works costs to arrive at the final investment request. The company provides information in response to a query[86] which lists five areas of major cost variance (i.e. variance above the benchmark) and explains why this is the case. The major benchmark variances are summarised as follows: Membrane Package Plant (£8.69 million, +19.6%) due to the use of specialist membrane technology, site-specific requirements, pretreatment needs, system integration costs, and limitations in benchmark datasets for advanced technologies. Process Buildings (£1–£3 million uplift per building, +50–130%) due to bespoke process building configurations, technical specifications, regulatory compliance requirements, and limited benchmark comparators. Large MEICA Pipework (up to £0.742 million uplift per asset, 60–120%) due to asset scale, material and pressure specifications, routing complexity, installation constraints, and interfaces with existing infrastructure. Process Area Delivery Slab / Civil Works (£0.648 million uplift, +128%) due to non-standard slab scale and configuration, specific loading and civil works requirements, ancillary infrastructure, and site logistics constraints. HV Electrical Infrastructure (up to £0.200 million uplift, +80–520%) due to site-specific load and resilience requirements, protection and redundancy standards, network connection works, DNO interfaces, and a limited benchmark comparison dataset.		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Within Submission 2, the company provides a breakdown of cost in a table.[87] These are split into cost types into multiple cost types: direct, indirect, BNG and power supply, target risk exposure and corporate overheads, net zero and transitional expenditure, alongside and accompanying description. In terms of sufficient explanation, within its Submission 2 document the company provides accompanying tables to explain the different cost types covered in the 'Total Cost Breakdown'. This explanation covers cost and option methodology, cost estimate by classification, cost breakdown for ceramic membranes/ other plant/ equipment/ assets, net direct cost component proportions/ breakdown, contractor/ client indirect cost proportions, corporate overhead proportions and cost changes since Submission 1 (including a separate appendix with completed Change Log).[88] In the separate appendix,[94] there is sufficient accompanying data alongside listed costs to understand what the costs relate to and how they contribute to arriving at the total cost estimate. For all scope items, in a query response document the company provides sufficient and convincing evidence of cost breakdown for net direct works cost. Individual scope items are broken down at a component level, sizing, number and units are also provided. In a query response[89] the company provides breakdown of its approach to costing for those associated with BNG. In the query response, the company provides a walkthrough of baseline assumptions, site		

[87] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, Table 5.2.9, p.29-30
[88] Southern Water, 'WTW 1 Annex 5C - Change Log', May 2026
[89] Southern Water, Query response 'OFW-SRN-CCP-022'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	condition, baseline biodiversity units, post development assumptions, BNG strategy, net gain requirement, cost methodology, indicative estimates, spatial risk/ market availability, assessment scope and a summary. The company provides evidence of its costing methodology[90] and procurement and operation model within its Submission 2 document. The company also provides a separate appendix[91] which outlines its broad approach to costing/ optioneering. The document outlines its approach to cost capture/ modelling, cost estimation (direct, indirect, OPEX), risk estimation, corporate overheads estimation and benchmarking/ efficiency. For procurement and operation model, in its Submission 2 document the company states that when referring to 'Supply Chain Model' that the contract for WTW 1 was awarded in August 2025. [92] It notes supplier's capability with respect to the company's operating region, covering planning, design, construction management and technical services. (i.e. end to end). **Our Assessment** - The company does not provide sufficient and convincing evidence that costs put forward are efficient. The company provides a third-party benchmarking report which highlights that overall variance above benchmark is 8.46% for the areas in scope. Although the company has attempted to explain the		

[90] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, p.25, section 5.2
[91] Southern Water, 'WTW 1 Annex 5A - Cost and Option Methodology', May 2026
[92] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2' pp. 39-41, section 8

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	higher costs, they did not provide sufficient and convincing evidence of the higher costs being efficient overall. The company provides sufficient and convincing evidence of cost breakdown for items within the scope of the scheme, this is provided both within its Submission 2 document[93] and also a separate appendix.[94] Overall costs of the scheme are presented and individual scope items are broken down into their component parts. The company also provides sufficient and convincing evidence of its costing methodology[95] and procurement and operation model within its Submission 2 document. The approach to costing is explained in detail and its approach to and progress on procurement/ operation model is described in sufficient detail within its Submission 2 document. **Detailed Decision** - We propose a conditional challenge of 8.46% of all costs not removed from scope under 'Investment Need'. To achieve a Pass at final determination, in its response to the draft determination, the company must provide sufficient and convincing evidence as to why cost areas covered by third party benchmarking report are above benchmarked costs. This can be achieved by providing:		

[93] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, pp. 29-30, section 5.2, table 5.2.9
[94] Southern Water, 'WTW 1 Annex 5B_11A - LSG Cost Ofwat', May 2026, sheet 3 'Cost Breakdown'
[95] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, section 5.2, pp.25

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	An explanation in response to the draft determination as to why costs benchmarked via the third party report[96] are above the benchmark (refer to the different cost areas covered in the report: net direct, indirect, BNG). An explanation in response to the draft determination as to why a portion of scheme total costs were not captured by this benchmarking activity (approx. £110 million) and provide evidence of efficiency in these areas or an explanation as to why costs are inefficient if this is the case. If this evidence is not sufficient and convincing, we will consider that cost efficiency has not been sufficiently demonstrated and we may challenge the proposed investment in our final decision.		
Customer protection	**Company Evidence** - The company proposes a PCD which tracks 'Earned Value' of the project. This is in line with the PCD we applied to Southern Water's resilience schemes in our PR24 final determinations. Within its Submission 2 document[97] the company provides information on how to assess delivery of the PCD via the 'Earned Value' mechanism. The company provides an explanation of PCD structure including	**Some gaps**	**0%**

[96] Southern Water, 'WTW 1 Appendix 5C – Benchmarking Report', May 2026
[97] Southern Water, 'CCP004 – LSG WTW 1 WSW Submission 2', May 2026, p.53, appendix 7A

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	non-delivery payment, assessment approach and guidance it has used to inform its decision making[98]. **Our Assessment** - Whilst the company provides a basis for linking the PCD and Earned Value approach to the DWI FEO deadlines, it is not clear how DWI sign off of FEO completion will be taken into account when assessing PCD delivery. We consider the proposed PCD will not provide appropriate protection to customers. Although the proposed PCD is in line with the PCD we applied to the company's resilience schemes in our PR24 final determination, the size and scale of this scheme is significantly larger and so we consider that a more prescriptive output based PCD would be more appropriate to protect customers from non- or under-delivery. We have concerns regarding less fixed elements pertaining to specific scope items (e.g. Ceramic Membrane (supplier), Additional Generator (sizing), Chlorine Contact Vessels (sizing/ provision), [redacted] which are potentially subject to change based on finalised solution. In the instance of the solution changing requirements of these scope elements (e.g. preferred/ feasible supplier changing, size of additional generator needed, membrane selection and need for additional contact time/ implication on vessels, [redacted] we would want		

[98] Southern Water, 'CCP004 - LSG WTW 1 WSW Submission 2', May 2026, pp.38-39, section 7

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	to understand how any relevant cost savings/ 'unused' allowance would be returned to customers. **Detailed Decision** - We propose a non-delivery PCD that tracks the delivery of the additional capacity, FEO completion and different scope items of the investment, including the core items and the allowed additional scope items. The non-delivery PCD payment rate will be calculated as the allowed expenditure for each item. If the company fails to deliver any specified item, the allowed expenditure for the item will return to customers.		

A4.2.3 Large Gated Schemes – Southern Water – Hastings

The following table summarises our draft determination regarding Southern Water's Hastings Network Resilience Submission 2.

The company's proposal is to deliver a wider Hastings resilience package intended to improve resilience across the standalone Hastings water resource zone. The package includes the Darwell to Beauport raw water main replacement, Darwell-related enabling works on the existing raw water main, upgrades at [redacted] WTW1 and [redacted] WTW2, [redacted] treated water distribution works, and direct managed capex interventions across Brede, Beauport and Darwell.[99] Within the submission,

[99] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.6-7, Executive Summary (Table 1); pp.8-9, section 2.3

Southern Water requests a claim of £158.59 million through the cost change process, after deducting its stated £1.90 million implicit allowance and £2.01 million development allowance from the submitted £162.50 million total scheme cost.[100] This cost is significantly higher than the solution cost estimate of £35.3 million provided within Southern Waters Submission 1 provided in October 2025.[101]

In our assessment of Submission 2, we focussed on:

- cost evidence to enable us to make decisions on cost allowances for schemes; and
- the quality of the submission in line with our large scheme gated guidance to ensure the sufficient development and maturity of the scheme.[102]

Overall, we provisionally conclude that Hastings Resilience Submission 2 is "Falls short of meeting expectations in some areas" - our reasons for this score can be found in the Hastings Resilience quality assessment table below. We consider that the Darwell-focussed element of the scheme should progress to delivery phase and propose an efficient allowance of £76.04 million as part of our draft determination. Our reasons for this allowance can be found in our deep dive assessment in the Hastings Resilience deep dive assessment table below.

Hastings Resilience quality assessment

Overall Decision	**Falls short of meeting expectations in some areas**

[100] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.24-25, section 5.2; and Southern Water, Query Response 'OFW-SRN-CCP-010' , June 2026
[101] Southern Water 'Large Scheme Gated Submission 1 Hastings Resilience', October 2025, Table 4.1
[102] Ofwat, 'PR24 Large Schemes Approach Guidance', August 2025

Assessment Area	Summary of quality assessment
Solution Delivery Plan	Southern Water has provided sufficient and convincing evidence for the Darwell to Beauport raw water main, which is situated in the High Weald Area of Outstanding Natural Beauty (AONB). The company's evidence demonstrates material progression in scheme development since Submission 1. Evidence has been provided across the principal assessment areas, including design development, feasibility, planning and delivery, stakeholder engagement, procurement arrangements, customer protection and cost development. Supporting information is generally presented through the main submission alongside a range of technical appendices, providing a more comprehensive evidence base than was previously available. For design and feasibility, the company has provided a feasibility design report setting out the preferred replacement route together with supporting information covering hydraulic design, surge study, constructability, trenchless crossings, environmental constraints, archaeology and ground investigations. The evidence supports a provisional view that the preferred offline replacement option is technically credible and provides a reasonable basis for assessing the scheme at this stage.[103] The submission also identifies planning, environmental, land access and third-party constraints, with a detailed delivery programme including survey, planning and consenting activities. However, whilst the evidence demonstrates that these matters have been identified and incorporated into delivery planning, it does not clearly demonstrate that all necessary investigations, approvals and consents have been completed.[104] The company has provided evidence of engagement with a range of relevant stakeholders including the Drinking Water Inspectorate (DWI), Environment Agency, Natural England, the High Weald AONB unit, local authorities, National Highways, Network Rail and affected landowners. The submission demonstrates that regulatory, planning and delivery interfaces

[103] M Group Water, 'Hastings Appendix 3C2 – Darwell to Beauport Raw Water Main Feasibility Design Report', October 2025; Southern Water, 'OFW-SRN-CCP-010 Response', June 2026; Jacobs, 'Hastings Appendix 10B – Technical Assurance Report', April 2026

[104] M Group Water, 'Hastings Appendix 3C2 – Darwell to Beauport Raw Water Main Feasibility Design Report', October 2025; Southern Water, 'Hastings Appendix 6A – Detailed Programme: Darwell to Beauport Raw Water Main', May 2026

Assessment Area	Summary of quality assessment
	have been recognised and that engagement activities are underway. However, the evidence generally provides assurance that consultation has taken place rather than demonstrating that formal agreements or approvals have been secured. Similarly, whilst customer impacts associated with wider Hastings resilience issues are referenced, customer engagement evidence is not clearly linked to the selection of the Darwell raw water main solution. Southern Water has not provided evidence that sufficient engagement has taken place with stakeholder such as Natural England, to show that the selected option furthers the purpose of conserving and enhancing the natural beauty of the High Weald Area of Outstanding Natural Beauty (AONB). Procurement and delivery arrangements are supported by evidence identifying delivery partners, commercial packages and the proposed delivery strategy. The submission demonstrates that supplier involvement has progressed beyond high-level assumptions, with delivery partner input informing both design development and cost estimates. A detailed delivery programme has also been provided, identifying the principal stages of surveys, planning, procurement, construction, commissioning and handover. In addition, the company has proposed an earned value-based customer protection mechanism supported by a dedicated appendix. This contains relevant features and meets the broad criteria set out in our large gated scheme guidance. The proposed earned value approach is also consistent with the type of PCDs we applied to similar areas of expenditure at PR24, although the appropriateness of the proposed mechanism for the funded scope is assessed separately under customer protection.[105] The company has provided detailed cost evidence including cost estimate summaries, supporting cost build-ups, commercial assurance and benchmarking information. The evidence demonstrates a more mature cost development process than was available previously and provides greater confidence that the estimate has been informed by detailed design and delivery partner engagement. However, further work is required to reconcile differences between cost

[105] Southern Water, 'Hastings Annex 5B1 - Darwell to Beauport Raw Water Main Cost Estimate Summary', April 2026; [redacted] 'Hastings Appendix 5E - Direct & Indirect Costs Only Benchmark Report', March 2026; Jacobs, 'Hastings Appendix 10C - Commercial Assurance Report', April 2026; Southern Water, 'Hastings Annex 7A - Earned Value Approach', May 2026.

Assessment Area	Summary of quality assessment
	estimates presented across the submission, clarify the treatment of indirect costs, development expenditure, environmental and land-related costs, and scope boundaries for related works, and support the efficient expenditure position proposed[105]. Overall, the submission demonstrates a significant improvement in both the quality and quantity of supporting evidence and provides a reasonable basis for assessing the technical feasibility and deliverability of the core Darwell to Beauport raw water main.
Assurance	The company has provided third-party technical and commercial assurance reports in support of Submission 2. These reports provide independent review and challenge of key aspects of the submission and contribute additional evidence regarding the robustness of the proposed solution, delivery arrangements and cost estimates. The assurance reports have been reviewed as part of the assessment and provide useful supporting evidence across a number of assessment areas.[106] The technical assurance supports the view that the scheme has advanced beyond the level of development previously evidenced. However, the report also recognises that uncertainties remain in a number of areas, including surveys, planning and consenting activities, programme assumptions and the definition of component-level scope boundaries. The commercial assurance report provides an independent review of the company's cost estimates and cost confidence. The report identifies several material issues requiring further consideration, including biodiversity net gain costs, indirect costs, scope and cost reconciliation, risk allocation and alignment between programme assumptions and proposed performance commitment delivery arrangements. Taken together, the assurance reports provide additional confidence that the company has subjected the submission to independent technical and commercial challenge. The findings are broadly supportive of the progression made since

[106] Jacobs, 'Hastings Appendix 10B – Technical Assurance Report', April 2026; Jacobs, 'Hastings Appendix 10C – Commercial Assurance Report', April 2026

Assessment Area	Summary of quality assessment
	PR24 cost position, subsequent optioneering estimates and the Submission 2 estimate. While the Change Log and supporting evidence demonstrate changes in route selection and design development, including progression towards an offline replacement route, it does not clearly quantify the associated cost impacts or distinguish costs relating to the original raw water main driver from those associated with wider resilience, compliance, net zero or other scope elements.[109]
Risk Register	The company has provided a detailed risk register for the Hastings / Darwell submission, representing a material improvement on the evidence available at Submission 1. The register includes quantified risk allowances, proposed mitigation measures and supporting information relating to risk ownership and key assumptions. Risks have been identified across the principal areas affecting delivery of the Darwell raw water main, including route selection, surveys, planning and consents, construction activities, third-party interfaces and wider delivery constraints. Programme risks associated with surveys, approvals, procurement and construction are also identified, with quantified cost impacts providing a more developed assessment of potential delivery uncertainty.[110] The submission provides evidence that risk mitigation has been considered and applied, with the Darwell delivery partner (M Group) risk reducing from £16.271 million pre-mitigation to a target exposure of £12.402 million following mitigation. However, some residual uncertainty remains around risk ownership, overlap with other cost items and how risk allowances interact with wider cost assumptions. The commercial assurance report also identifies areas requiring further review, including risk ownership and the potential overlap between environmental, biodiversity net gain, ecology, archaeology and ground condition risks. Overall, the risk register provides a more comprehensive and transparent assessment of delivery

[110] Southern Water, 'Hastings Appendix 6A - Detailed Programme: Darwell to Beauport Raw Water Main', May 2026; Southern Water, 'Hastings Appendix 6B - Key Risk Register', May 2026

Assessment Area	Summary of quality assessment
	Submission 1 and provide useful evidence regarding the maturity of the design and cost development undertaken. However, the assurance reports do not remove all delivery, cost or planning-related uncertainties identified elsewhere within the submission.[107] It is also not currently clear from the evidence reviewed whether all actions, recommendations or caveats raised through the assurance process have subsequently been closed by Southern Water. Southern Water states that the submission has been subject to executive and board-level governance, although the evidence provided in the submission does not include a standalone Board Statement or full record of formal governance approval. The assurer has not provided a letter of reliance in line with our guidance,[108] which would implement the duty of care to Ofwat required at final determination. We expect Southern Water to make sure this is provided in response to our draft determination.
Change Log	The company has provided a completed Change Log for Submission 2 which provides a structured record of changes in scope, costs and programme relative to PR24 and Submission 1. The Change Log represents a material improvement on the evidence available at Submission 1 and supports the view that the scheme has evolved significantly since the original submission. In particular, the evidence indicates that the scope has expanded beyond the original Darwell to Beauport raw water main proposal to encompass a wider Hastings resilience package, including Darwell-related enabling works, [redacted] WTW1, [redacted] WTW2, Udimore, direct management capex, net zero and other associated interventions.[109] The Change Log provides evidence of material cost increases between PR24, Submission 1 and Submission 2 and helps explain the principal drivers of these movements. However, it does not fully reconcile the relationship between the original

[107] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, section 10; Jacobs, 'Hastings Appendix 10B - Technical Assurance Report', April 2026; Jacobs, 'Hastings Appendix 10C - Commercial Assurance Report', April 2026
[108] Ofwat, Assurance requirements for delivery of enhancement schemes appendix, December 2024
[109] Southern Water, 'Hastings Annex 5D - Change Log', May 2026; Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.6-7, Table 1; pp.8-9, section 2.3

Assessment Area	Summary of quality assessment
	risks than previously submitted, although further reconciliation and clarification of specific risk allowances and ownership would strengthen confidence in the overall risk position.[111]

Hastings Resilience deep dive assessment

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Southern Water requests £158.59 million through the cost change process for its Hastings Resilience package. This is based on a submitted total package cost of £162.50 million, less a £1.90 million implicit allowance and a £2.01 million development allowance. Southern Water states that the package is intended to improve resilience across the Hastings water resource zone, which it describes as a standalone system with limited interconnectivity to neighbouring zones. The zone is supplied by Beauport water supply works and Brede water supply works. The costs proposed are significantly higher than the solution cost estimate of £35.3 million provided within Southern Waters Submission 1 provided in October 2025.[112] The submitted package includes a mix of raw water transfer, treatment works, treated water distribution and smaller resilience and compliance-related interventions. The largest component is the Darwell to Beauport raw water main replacement (£71.122 million), which would provide a new raw water main between Darwell Reservoir and Beauport water supply	**N/A**	**N/A**

[111] Southern Water, 'Hastings Appendix 6B – Key Risk Register', May 2026; Jacobs, 'Hastings Appendix 10C – Commercial Assurance Report', April 2026
[112] Southern Water 'Large Scheme Gated Submission 1 Hastings Resilience', October 2025, Table 4.1

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	works. Southern Water also includes Darwell-related enabling works (£4.920 million), which relate to access and intervention works on the existing Darwell to Beauport raw water main. The wider Hastings package also includes Brede water treatment works (WTW) (£62.574 million), Beauport WTW (£13.189 million), Udimore treated water distribution works (£1.252 million), and direct managed capex works across Brede, Beauport and Darwell (£9.449 million). The Brede and Beauport elements include treatment works upgrades and asset replacements. The Udimore element relates to treated water distribution works. The direct managed capital works comprise a package of smaller interventions across the Hastings system[113].		
Need for a step change in investment	We consider that Southern Water provides sufficient and convincing evidence of the need for enhancement investment for the Darwell-focused scope. This comprises the Darwell to Beauport raw water main replacement and Darwell-related enabling works on the existing Darwell to Beauport raw water main. We retain this scope for further assessment under the best option, cost efficiency and customer protection tests. We do not consider that Southern Water provides sufficient and convincing evidence that the wider Hastings package should be funded through the large gated scheme process. **Company evidence** - Southern Water states that the Hastings water resource zone is a standalone system with limited interconnectivity to neighbouring zones. It states that the	**Partial Pass**	**Retain £76.04 million Darwell-focused scope**, comprising Darwell to Beauport raw water main replacement (£71.122 million,

[113] Southern Water, 'Hastings Resilience Submission 2 (CCP006)', table 8, p. 22; Southern Water, Query response to 'OFW-SRN-CCP-010', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	zone is supplied by Beauport WTW and Brede WTW, with Darwell Reservoir able to provide raw water to either site. Southern Water states that the Darwell to Beauport raw water main is a critical raw water transfer route to Beauport WTW. It states that the existing main is approaching the end of its design life, is prone to bursts, and that local developments since PR24, including the May 2024 failure, have increased the need for security of supply. Southern Water provides evidence on the condition and performance of the existing main, operational constraints, and the rationale for replacing the main rather than continuing to rely on the existing asset. It states that the existing raw water main is an 11.4 kilometre prestressed concrete pipe, operates at high pressure, can transfer up to 30 Ml/d of raw water to Beauport WTW, and has burst on average once a year over the past 20 years[114]. Southern Water's evidence also sets out the wider Hastings package. This includes Brede WTW (£62.574 million), Beauport WTW (£13.189 million), Udimore treated water distribution works (£1.252 million), and direct managed capex works across Brede, Beauport and Darwell (£9.449 million). These components include treatment works upgrades, treated water distribution works, and smaller resilience and compliance-related interventions. Southern Water states that the Darwell to Beauport raw water main replacement cost is £71.122 million. It also includes £4.920 million for Darwell-related enabling works, which it describes as access and intervention works on the existing Darwell to Beauport raw water		including a £17.354 million biodiversity net gain provision) and Darwell-related enabling works (£4.920 million).; **-£82.55 million wider Hastings scope,** including Brede WSW £62.574 million, Beauport WSW £13.189 million, Udimore treated water distribution

[114] Southern Water, 'Hastings Resilience Submission 2 (CCP006)', sections 2.1–2.2, pp. 7–8; section 3.1.1, pp. 11–12

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	main, including works to identify or restore damaged assets such as air valves, fittings and chambers. **Our assessment** - We consider that the evidence demonstrates a need for a step change in investment for the Darwell to Beauport raw water main. The evidence shows that the existing main is a critical raw water transfer route and that continued reliance on the existing asset creates a material resilience risk for customers in the Hastings water resource zone. The evidence is also aligned to the original PR24 and large gated scheme driver, which focused on improving resilience through replacement of the Darwell to Beauport raw water main. We also consider that the Darwell-related enabling works are sufficiently linked to the same resilience risk. These works support management of the existing main while the replacement main is delivered. We therefore include these works in the assessed Darwell-focused scope[115]. We do not consider that Southern Water provides sufficient and convincing evidence that the wider Hastings components should be funded through this Darwell-focused large gated scheme process. The original PR24 and large gated scheme driver was focused on the Darwell to Beauport raw water main resilience risk. By contrast, the wider submitted scope relates to treatment works resilience, DWI Final Enforcement Order activity, treated water distribution, operational resilience, asset replacement, renewals or refurbishment activity. Some of these issues appear to relate to long-standing treatment works or compliance matters.[116] None of		works £1.252 million, direct managed capex £9.449 million, and wider net zero/additional solar expenditure (embedded within the wider package costs);

[115] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, p.8, section 2.2 (Table 2); pp.11-12, section 3.1.1
[116] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.8-9, section 2.3; pp.12-13, section 3.1.2; pp.13-15, section 3.1.3; p.15, section 3.1.4; p.16, section 3.1.5

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	these proposed interventions featured as cost requests in the company's original PR24 business plan or its representations. To the extent that Southern Water's wider Hastings package includes net zero or additional solar expenditure, we do not retain that expenditure through this large gated scheme route. Southern Water has not provided sufficient and convincing evidence that this expenditure is necessary to deliver the Darwell to Beauport raw water main resilience investment and address the original resilience need. We recognise that some of the excluded components may address genuine operational, resilience or compliance issues. However, Southern Water has not sufficiently demonstrated that these components are necessary to deliver the original Darwell to Beauport raw water main resilience output, or that they should be funded by customers through this large gated scheme process. Some of the wider treatment works and compliance-related issues appear to relate to DWI Final Enforcement Order obligations or long-standing issues that were known before PR24 and were not raised as specific enhancement claims. The large gated scheme process is intended to confirm the scope and efficient cost of specific large schemes. It is not intended to reopen the company's wider resilience programme or base allowances.[117] The direct managed capex package includes a mixed list of smaller interventions across Brede, Beauport and Darwell. Some individual items appear to relate to Darwell assets. However, Southern Water has not provided a costed item-level explanation showing which		

[117] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.8-9, section 2.3; pp.12-16, sections 3.1.2-3.1.5

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	direct managed capex items are necessary to deliver the original Darwell to Beauport raw water main resilience output. It has also not shown whether those items are separate from the allowed Darwell raw water main and enabling works, or whether they are enhancement rather than base maintenance or asset health activity. Our draft determination is to pass the need for £76.04 million for the Darwell-focused scope. This comprises £71.122 million for the Darwell to Beauport raw water main replacement and £4.920 million for Darwell-related enabling works. We do not retain the wider Hastings scope through this route, for the reasons set out above, including Brede WTW, Beauport WTW, Udimore treated water distribution works and the direct managed capex package. This removes £82.55 million from Southern Water's requested additional allowance of £158.59 million. This does not prevent Southern Water from bringing forward a separate claim through an appropriate future route, such as the asset health cost change process, where specific asset-health-related elements may be eligible if supported by sufficient and convincing evidence. This may include relevant treatment works asset-health elements included in the Hastings submission, such as rapid gravity filters, contact tanks and treated water tanks, if Southern Water can demonstrate that the claim meets the relevant criteria and does not overlap with base expenditure or previously funded activity.[118]		

[118] Southern Water, 'OFW-SRN-CCP-010 Response', June 2026; Ofwat, 'Cost-change-process-guidance-note.pdf' , November 2025

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Best option for customers	We consider that Southern Water provides sufficient and convincing evidence that the assessed Darwell-focused scope represents the best option for customers. This comprises the Darwell to Beauport raw water main replacement and the Darwell-related enabling works. We do not propose to apply a further cost adjustment under best option for customers. **Company evidence** - Southern Water provides evidence that it considered a range of options for improving the reliability and resilience of the Darwell to Beauport raw water main. The options included relining the existing pipe, constructing a replacement pipeline within the existing easement, constructing a new pipeline on a new route, adding a Whatlington resilience connection, using an alternative route previously explored by Southern Water, and phasing delivery across the 2025-30 and 2030-35 periods.[119] Southern Water selected DB3, a new offline replacement route, as its preferred option. It states that this option reduces operational and construction risk compared with relining the existing live main or replacing the main within the existing easement. It also states that the preferred option reduces the need to work on or close to the existing high-pressure raw water main, which is a critical supply route to Beauport WTW.[119] Southern Water also provides evidence of its best value appraisal approach. It states that options are assessed using its best value framework, including consideration of cost, carbon, risk, deliverability, operational impact, natural capital and social capital. Southern Water	**Pass**	**0%**

[119] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.11-12, section 3.1.1 (Table 3); Southern Water, 'OFW-SRN-CCP-010 Response', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	provides component-level whole-life cost and carbon information for the Darwell to Beauport raw water main. It also provides further technical evidence on the preferred route, including design options evidence and strategic crossings information.[120] **Our assessment** - We consider that Southern Water provides sufficient and convincing evidence that the preferred offline replacement route is technically credible and appropriate for the assessed Darwell-focused scope. The evidence explains why relining and replacement within the existing easement were discounted, including the need for shutdowns on a live asset, the risk of working close to the existing high-pressure main, and the potential impact on supply continuity. The preferred option allows more of the construction to take place offline, reducing delivery and operational risk for customers. We recognise that the wider Hastings submission presents some benefits at programme level and does not fully attribute all resilience benefits to individual components. We also recognise that the best value and whole-life cost evidence is stronger at the technical and component-cost level than at the level of a fully quantified Darwell-specific customer benefit appraisal. However, for the retained Darwell-focused scope, the evidence is sufficient to show that the preferred offline route is a credible and appropriate option for customers. Southern Water has not provided evidence that sufficient engagement has taken place with stakeholder such as Natural England, to show that the selected option furthers the purpose of		

[120] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.23-24, sections 5.1.3-5.1.4 (Tables 11-12); pp.25-26, sections 5.3-5.4; Southern Water, 'Hastings Annex 5A - Cost & Option Methodology', October 2025; Southern Water, 'OFW-SRN-CCP-010 Response', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	conserving and enhancing the natural beauty of the High Weald Area of Outstanding Natural Beauty (AONB). Southern Water should provide evidence of this by way of submitting further detail on its interactions with the High Weald AONB unit. The main concern with the wider package is a scope and need issue, which we address under "Need for a step change in investment". We therefore consider that there is sufficient and convincing evidence for the Darwell-focused scope as regards the best option for customers test and apply no further adjustment under this assessment area.		
Robust and efficient costs	We consider that Southern Water provides sufficient and convincing evidence to support a draft allowance for the assessed Darwell-focused scope. This comprises £71.122 million for the Darwell to Beauport raw water main replacement and £4.920 million for Darwell-related enabling works. We allow £76.04 million for this scope and do not apply a further upfront cost efficiency adjustment. The biodiversity net gain provision is included provisionally within the Darwell allowance, subject to customer protection if the final independently assured scale and efficiency of required costs is lower than the amount allowed. **Company evidence** - Southern Water provides cost evidence for the Darwell to Beauport raw water main, including a cost estimate summary, cost breakdowns, benchmarking evidence and assurance material. Its evidence separates key elements of the cost stack, including direct works, indirect costs, risk, corporate overheads and biodiversity net gain. Southern	**Conditional Pass**	**0%** £76.04 million for Darwell-focused scope

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Water also provides a biodiversity net gain strategy, whole-life cost modelling and strategic crossings evidence for the Darwell to Beauport route.[121] Southern Water provides a biodiversity net gain strategy setting out the statutory requirement to secure a minimum 10% biodiversity net gain where planning permission is required. Southern Water's Darwell Cost Estimate Summary includes a biodiversity net gain provision of £17.354 million within the £71.122 million Darwell project cost. The biodiversity net gain strategy explains that the estimate is based on anticipated off-site biodiversity unit requirements, market rates and comparable pipeline scheme data, and is subject to refinement as surveys, design and procurement progress.[122] **Our assessment** - We consider that Southern Water's cost evidence is sufficiently developed to support the Darwell-focused draft allowance. The company provides a Darwell-specific cost estimate and supporting evidence on route, design, crossings, risk and delivery approach. The benchmarking evidence supports the view that Darwell direct works costs are broadly aligned with benchmarked costs. The biodiversity net gain strategy also provides evidence on the		

[121] Southern Water, 'Hastings Annex 5A - Cost & Option Methodology', October 2025; Southern Water, 'Hastings Annex 5B1 - Darwell to Beauport Raw Water Main Cost Estimate Summary', April 2026; [redacted] 'Hastings Appendix 5E - Direct & Indirect Costs Only Benchmark Report', March 2026; Jacobs, 'Hastings Appendix 10C - Commercial Assurance Report', April 2026; Southern Water, 'ID406.11 Whole Life Cost Model D2B - 30 Years', May 2026; M Group Water, 'Strategic Crossings Updates - Darwell to Beauport RWTP', May 2026

[122] Southern Water, 'Hastings Resilience Programme Biodiversity Net Gain Strategy', March 2026, Executive Summary; section 5; Table 1; Southern Water, 'Hastings Annex 5B1 - Darwell to Beauport Raw Water Main Cost Estimate Summary', April 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	basis of the biodiversity net gain estimate, including the expected reliance on off-site habitat units and Southern Water's proposed procurement approach.[123] However, the final scale and efficiency of biodiversity net gain costs of easement and land-related requirements remains uncertain. Southern Water's biodiversity net gain strategy states that the assessment is an initial high-level estimate based on information available at the early design stage. It states that no field survey has yet been undertaken, that baseline habitat types and condition assessments are based on aerial imagery, mapping and internal data, and that final biodiversity net gain requirements will evolve as survey information and design detail mature. The strategy also notes that very high-distinctiveness or irreplaceable habitats, including ancient woodland, may require bespoke compensation if affected[124]. The BNG strategy also notes that very high-distinctiveness or irreplaceable habitats, including ancient woodland, may be affected. Other than the payment of bespoke compensation, the company should explain in its response to our draft decision the measures it has taken and those it plans to take in line with its statutory duties to avoid or mitigate impacts on these sites. Evidence of engagement with relevant stakeholders in relation to these measures, and stakeholder concerns, should be provided. Our draft determination is to provisionally include biodiversity net gain related costs in the Darwell-focused allowance, rather than apply an upfront reduction. We do this because Southern Water has provided evidence that these costs may be necessary to deliver the		

[123] Southern Water, 'Hastings Annex 5B1 - Darwell to Beauport Raw Water Main Cost Estimate Summary', April 2026; Southern Water, 'Hastings Resilience Programme Biodiversity Net Gain Strategy', March 2026, sections 4.1, 4.2 and 5
[124] Southern Water, 'Hastings Resilience Programme Biodiversity Net Gain Strategy', March 2026, Executive Summary; section 2.1; section 5

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Darwell to Beauport raw water main. However, given the uncertainty around the final scale of need and unit cost efficiency, customers must be protected if actual efficient costs are lower than the amount allowed.		
Customer protection	Southern Water provides a proposed customer protection approach, including an earned value mechanism. We consider that this approach contains relevant features and meets broad criteria set out in our large gated scheme guidance. However, given the scale of the proposed investment and the Darwell-focused scope, we do not consider that Southern Water's proposed mechanism would provide sufficient protection to customers in the event of non-delivery or under-delivery of the funded scope. We do not apply a cost adjustment under customer protection. However, we do propose to apply a Darwell-specific price control deliverable (PCD) that protects customers from non-delivery or under-delivery of the funded scope. **Company evidence** - Southern Water proposes a PCD for the Hastings Resilience package. It states that the scheme is linked to Final Enforcement Orders and proposes a completion date aligned to the Final Enforcement Order date of 30 November 2033. Southern Water also states that the proposed PCD aligns with its existing PR24 water resilience PCD. Southern Water's proposal uses an earned value approach, with values and rules of credit attached to delivery	**Some Gaps**	**0%**

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	milestones, monthly reporting, and an underperformance rate derived from the total additional value requested through the submission.[125] **Our assessment** - We consider that Southern Water's proposed customer protection approach contains relevant features, including an earned value structure, delivery milestones, rules of credit and an underperformance rate. This is consistent with the type of PCDs we applied for similar areas of expenditure at PR24. However, given the scale of the proposed investment and the Darwell-focused scope, we consider that a PCD tracking earned value across the wider Hastings package would not provide sufficient protection to customers in the event of non-delivery or under-delivery. Southern Water's proposed PCD is based on the wider Hastings package and a 2033 Final Enforcement Order date. Our draft determination allows £76.04 million for the Darwell to Beauport raw water main and Darwell-related enabling works only. We do not allow the wider Brede WTW, Beauport WTW, Udimore or direct managed capex through this large gated scheme route. We therefore propose to apply a Darwell-specific PCD which tracks delivery of the Darwell to Beauport focused scope.		

[125] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.35-36, section 7; Southern Water, 'Hastings Annex 7A - Earned Value Approach', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	The PCD will hold Southern Water to delivery of the Darwell to Beauport raw water main (length and capacity of additional raw water main), the Darwell-related enabling works, and the biodiversity net gain, easement and land-related requirements included in the allowance. The Darwell-related enabling works are funded at £4.920 million and include access and intervention works on the existing Darwell to Beauport raw water main, including works to identify or restore damaged assets such as air valves, fittings and chambers. The PCD should include separate non-delivery payment rates for the Darwell to Beauport raw water main project (excluding biodiversity net gain), the Darwell-related enabling works, and the biodiversity net gain provision. This includes a payment rate for the Darwell to Beauport raw water main project (£53.768 million), a separate payment rate for the Darwell-related enabling works (£4.920 million), and a separate payment rate for the biodiversity net gain provision (£17.354 million).[122] We set out the proposed non-delivery payment rates in the Large Gated Scheme PCD model, published alongside this document. Southern Water's query response provides delivery dates for the Darwell to Beauport raw water main and Darwell-related enabling works. However, Southern Water's proposed customer protection milestone is 30 November 2033, aligned to the final IM6 date for the wider Hastings package. Because our draft determination funds the Darwell-focused scope only, the relevant delivery milestone should be linked to delivery and commissioning, or beneficial use, of the Darwell to Beauport raw water main. Southern Water		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	should confirm the appropriate Darwell-specific delivery milestone and date as part of its representations[126]. The PCD should also reflect the customer protection we require for biodiversity net gain, easement and land-related costs. These costs are included provisionally within the Darwell-focused allowance, rather than a cost adjustment applied upfront. Customers must be protected if actual efficient costs are lower than allowed. We have therefore designed the PCD to claw back any underspend against these cost items so that Southern Water does not benefit from any underspend through cost sharing. We consider that Southern Water's proposed customer protection approach has some gaps. It meets the broad criteria in our guidance by proposing a PCD and earned value mechanism. However, it does not provide sufficient protection for the proposed Darwell-focussed scope. We therefore propose an alternative Darwell-specific PCD that reflects allowances and respective outputs, the appropriate delivery milestone and the specific cost protections for biodiversity net gain.		

[126] Southern Water, 'CCP006 - Hastings Resilience Submission 2', May 2026, pp.35-36, section 7; Southern Water, 'OFW-SRN-CCP-010 Response', June 2026

A4.3 Development costs for major projects

Summary of Request

Southern Water has requested £36.84 million through the cost change process for additional development allowances identified on the White Horse Reservoir Project. This request relates to the changes in scope on White Horse Reservoir and preparation for the upcoming Development Consent Order (DCO) application and procurement, requiring further design and environmental activities.

Company Evidence

The majority of Southern Water's cost change request, equating to £30.77 million, is underpinned by Thames Water's cost forecast on the White Horse Reservoir project. This is because Thames Water is the lead company on the development of White Horse Reservoir. The evidence presented in Southern Water's submission and its request for additional core development expenditure aligns with the information presented by Thames Water.

Southern Water provided a Board Assurance statement confirming that it continues to support the development of this project and therefore additional development costs required, subject to a number of conditions. This was in line with the expectations set out in our cost change process guidance.

The remaining £6.07 million relates to additional expenditure required internally for Southern Water as a result of the increased scope on White Horse Reservoir. Specifically, these costs are being driven by an increase in the supporting team both internally and externally to manage additional assurance, legal fees and the development of the Bulk Supply Agreement. These costs were also supported by relevant Board Assurance statements submitted as part of the cost change request.

Our Assessment

In assessing Southern Water's request, we have considered all the evidence provided to us as part of the cost change submission, as well as relevant areas of the Thames Water cost change submission, including additional areas of clarification that were sought.

Our review considered whether the proposal was fully understood and granular breakdown of costs were provided, with a clear reconciliation back to the PR24 final determinations. In addition to this, we considered whether the cost request was in line with the ongoing engagement as part of the Major Water Infrastructure Programme and therefore whether costs were supported by aligning evidence, including upcoming project milestones, risks and opportunities.

Draft determination

Southern Water has provided sufficient and convincing evidence that there is a need for additional development expenditure on White Horse Reservoir. We are therefore proposing to accept the full request of £36.84 million.

Following engagement with Southern Water, we have a reflected a more accurate profiling of their cost request due to the timing of expenditure being incurred on White Horse Reservoir, and required to be reimbursed to Thames Water.

A4.4 Enhanced Havant Thicket Reservoir Project (CAM2)

Draft determination summary

Southern Water has requested £49.87 million through the 2026 cost change process to reflect the additional costs associated with the Havant Thicket Reservoir (HTR) project. The request relates to changes in project scope required to integrate the reservoir with the Hampshire Water Transfer and Water Recycling (HWTWR) scheme (the "Alignment Works") – combining to deliver the Enhanced Havant Thicket Reservoir Project ("Enhanced HTR") – and the redesign required following the discovery of unforeseen ground conditions, comprising shear surfaces and sand formation, discovered during early excavation in late 2023.

Our current view is that an efficient allowance lies within a range of £44.8 million to £49.87 million. We expect to determine a specific point within this range following publication of our draft decision on Portsmouth Water's second Cost Adjustment Mechanism (CAM2) application. CAM2 is the mechanism established at PR24 to assess the additional costs associated with the Alignment Works and addressing the unforeseen ground conditions discovered during construction. It provides the evidential basis for Southern Water's cost change request. Under the bulk supply agreement between Southern Water and Portsmouth Water, Southern Water would be required to pay Portsmouth Water the increased costs decided through the CAM2 process.

For the purposes of this draft determination, we have included a conditional allowance based on the midpoint of this range. This reflects our current best estimate of efficient costs while recognising that the final allowance will depend on the outcome of the CAM2 process and any additional evidence received before our final determination.

Company evidence

Southern Water's cost change request is underpinned by Portsmouth Water's CAM2 application for the Enhanced HTR Project. Southern Water provided a Board support letter confirming that it continues to support the strategic need for the Enhanced HTR Project and, in principle, supports Portsmouth Water's CAM2 submission, subject to a number of observations and conditions. The enhanced project would provide significantly increased water supply and resilience in the region compared to the scope of the original Havant Thicket project.

Our review of the cost change request has drawn heavily on the extensive assurance and scrutiny undertaken through the CAM2 process. Between November 2025 and April 2026, we undertook a detailed deep-dive review of Portsmouth Water's submission. This included structured reviews of construction costs, non-construction costs, client delivery costs, programme impacts, risk allowances and the wider regulatory framework. As a result of this process, Portsmouth Water's final CAM2 submission was lower than its draft submission, reflecting efficiencies identified through our challenge and evidence review.

Portsmouth Water submitted detailed evidence packs covering each cost area, accompanied by independent assurance undertaken by Arcadis. We supplemented this through an extensive programme of engagement involving challenge sessions, technical workshops, commercial reviews and a formal clarification process. Our assessment was further supported by independent technical and commercial advisers.

As a result, Southern Water's cost change request benefits from a significantly greater level of scrutiny and assurance than would typically be available through a standalone cost change submission. We therefore consider that the evidence base supporting the request is robust and comprehensive.

Our assessment

In assessing Southern Water's request, we have primarily relied on the evidence, challenge and assurance developed through the CAM2 process. Our review considered whether the additional scope is justified, whether costs are supported by sufficient evidence, whether they represent efficient delivery and whether the resulting package appropriately protects customers.

We have also considered Southern Water's support for the proposed costs and the importance of the Enhanced HTR Project to Southern Water's wider water resources strategy. Southern Water considers the Enhanced HTR to be a critical component of its long-term supply-demand balance and environmental programme, including reducing abstraction from environmentally sensitive chalk streams and improving resilience for customers across Hampshire.

The detailed rationale for our assessment, including our review of individual cost categories, risk allowances, delivery incentives and financing arrangements, is set out in the Enhanced HTR Project CAM2 draft decision document due to be published in the coming months. The allowance included in this draft determination is therefore conditional on the outcome of that process. We expect to publish that draft decision within the next two months and a final decision approximately six weeks after that. We will provide a link to the final CAM2 decision in our final cost change documentation.

Draft determination

Our emerging view is that the majority of the additional costs associated with the Alignment Works and the unforeseen ground conditions are justified and fall within the defined scope of CAM2.

However, our review has also identified opportunities for efficiency improvements and areas where reductions are appropriate. In the draft CAM2 decision, we propose targeted challenge to construction costs, non-construction and client delivery costs, and risk allowances, while recognising the advanced stage of contracting and the need to maintain deliverability of the project.

Taken together, this results in an assessed conditional allowance range of **£44.8 million to £49.87 million** for Southern Water's cost change request. For the purposes of this draft determination, we have used the midpoint of this range. The final allowance will be determined following completion of the CAM2 process and will be reflected in our final cost change determination. At that point, we will also publish links to the supporting CAM2 documentation and set out the basis for the final allowed revenue adjustment.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

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