

WATER SERVICES REGULATION AUTHORITY

WATER INDUSTRY ACT 1991, SECTION 12

SOUTHERN WATER SERVICES LIMITED

**Notice of Reference: Determination of Price Controls
for the period from 1 April 2025**

18 March 2025

1. (a) Southern Water Services Limited ("the Company") holds an Appointment as a water undertaker and as a sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991 ("the Appointments");
(b) on 18 December 2024, the Water Services Regulation Authority ("Ofwat") gave notice to the Company of a determination under Condition B of the Appointments of the Price Controls for the period from 1 April 2025 ("the Disputed Determination"). The terms of the Disputed Determination are set out in Schedule 1 hereto;
(c) the Company has required Ofwat to refer the Disputed Determination to the Competition and Markets Authority ("CMA"). The terms of the Company's notice are set out in Schedule 2 hereto.
2. Ofwat, as required by section 12(3)(a) of the Water Industry Act 1991 and the Appointments, refers the Disputed Determination to the CMA.
3. The CMA shall report on and determine the Disputed Determination within a period of six months beginning with the date of this reference.

**Signed for and on behalf of the
Water Services Regulation Authority**

**David Black
Chief Executive**

December 2024

Notification of the PR24 final determination of price controls for Southern Water Services Limited

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

BN13 3NX

18 December 2024

Dear Lawrence

Final determination of price controls

I enclose the final determination by the Water Services Regulation Authority (Ofwat) of Price Controls for the period from 1 April 2025 to 31 March 2030. This sets out:

- the redesignation of certain activities from Retail Activities to Network Plus Activities;
- the Price Controls for Network Plus Activities;
- the Price Control for Water Resources Activities;
- the Price Control for Bioresources Activities;
- the Price Control for Retail Activities; and
- (in Annex 1) the Notified Item and Land sales assumptions;
- (in Annex 2) the Performance Commitments in relation to which Price Controls may be adjusted in-period; and
- (in Annex 3) the Revenue Forecasting Incentive formula.

This final determination will be published on our website. We are also publishing details on the outcomes and performance commitments for the company to deliver, together with information on our general approach and the reasons for our decisions.

We will publish information about the annual regulatory reporting, assurance requirements and our approach to PR24 reconciliations in 2025.

You have two months to decide whether to refer the determination to the Competition and Markets Authority. If you wish Ofwat to refer the determination you must let us know in writing no later than 18 February 2025.

Yours sincerely,

Chris Walters
Senior Director, Price Review

Notification by the Water Services Regulation Authority of its determination of Price Controls for Southern Water Services Limited ("the Determination")

This is the Determination by the Water Services Regulation Authority ("Ofwat") of the Price Controls for Network Plus Water Activities, Network Plus Wastewater Activities, Water Resources Activities, Bioresources Activities and Retail Activities. It is made by Ofwat in accordance with Part III of Condition B (Charges) of the company's Appointments as a water and sewerage undertaker:

- after having had regard to all the circumstances which are relevant in the light of the principles which apply by virtue of Part I of the Water Industry Act 1991 in relation to Ofwat's determinations, including, without limitation, any change in circumstance which has occurred since the last Periodic Review or which is to occur; and
- in accordance with the statement setting out strategic priorities and objectives for Ofwat published by the Secretary of State.

The Price Controls will all apply for the five consecutive Charging Years starting on 1 April 2025.

Unless the contrary intention appears, words and expressions used in this document (including the capitalised terms) shall have the same meaning as in the Conditions of the Appointments. Common terms used in the formulae in this document are defined in the Glossary set out in Annex 4 of this document.

1. Designation of activities

The sets of activities that will be covered by the relevant Price Controls are set out below.

1.1 Network Plus Activities

All activities carried out by the Appointee in performance of its functions as a water undertaker that are not designated as Water Resources Activities or Retail Activities are Network Plus Water Activities.

Ofwat also designates as Network Plus Water Activities under sub-paragraph 9.9 of Condition B the following activities (previously designated as Retail Activities) to the extent that they are carried out by the Appointee in performance of its functions as a water undertaker:

Developer Services:

- providing developer information; and
- administration for new connections.

All activities carried out by the Appointee in performance of its functions as a sewerage undertaker that are not designated as Bioresources Activities or Retail Activities are Network Plus Wastewater Activities.

Ofwat also designates as Network Plus Wastewater Activities under sub-paragraph 9.9 of Condition B the following activities (previously designated as Retail Activities) to the extent that they are carried out by the Appointee in performance of its functions as a sewerage undertaker:

Developer Services:

- providing developer information; and
- administration for new connections.

1.2 Water Resource Activities

Ofwat is not changing the activities that were designated as Water Resources Activities in 2019. These therefore continue to be the activities carried out as part of the Appointed Business that fall within the definitions of the following services in [Regulatory Accounting Guideline \(RAG\) 4.08 – Guideline for the table definitions in the annual performance report](#) (March 2019):

- Water resources – Abstraction licences; and
- Water resources – Raw water abstraction.

1.3 Bioresources Activities

Ofwat is not changing the activities that were designated as Bioresources Activities in 2019. These therefore continue to be the activities carried out as part of the Appointed Business that fall within the definitions of the following services in [RAG 4.08 – Guideline for the table definitions in the annual performance report](#) (March 2019):

- Sludge transport
- Sludge treatment; and
- Sludge disposal.

1.4 Retail Activities

Apart from the activities designated as Network Plus Activities under section 1.1 above, Retail Activities continue to be the activities designated as Retail Activities as part of the 2014 Periodic Review. These are (in summary) the following activities and costs:

Customer services including:

- billing;
- payment handling;
- remittance and case handling;
- charitable trust donations;
- vulnerable customer schemes; and
- network and non-network customer enquiries and complaints.

Debt management and doubtful debts.

Meter reading.

Other operating costs including:

- decision and administration of disconnections and reconnections;
- demand-side water efficiency initiatives;
- customer-side leaks;
- attributable other direct costs;
- attributable general and support expenditure; and
- attributable other business activities.

Attributable Business Rates.

1.5 Wholesale activities not covered by wholesale price controls

The Price Controls in respect of Water Resources Activities, Bioresources Activities, Network Plus Water Activities and Network Plus Wastewater Activities will not apply to those activities for which there are Excluded Charges. Excluded Charges (as defined in Condition B) include:

- charges for a supply of water in bulk to another water undertaker;
- amounts payable in respect of an unmeasured supply of water by means of stand-pipes or water tanks and in respect of the erection or maintenance of stand-pipes or water tanks;
- charges for a supply of water provided by the Appointee under section 59 (Supplies for other public purposes) of the Water Industry Act 1991;
- amounts payable in relation to the provision of a water main;
- amounts payable in relation to connecting a service pipe with a water main and ancillary works;
- amounts payable in relation to the adoption of water mains or service pipes;
- amounts payable in relation to the provision of a public sewer or a lateral drain;
- amounts payable in relation to making a communication with a public sewer;
- amounts payable in relation to the adoption of sewers, drains or sewage disposal works;
- amounts payable in relation to the recovery of any sums under section 160 of the Water Industry Act 1991 (relating to agreements with the owner or occupier of premises to carry out works for sewerage purposes);
- amounts payable in relation any works (such as diversions) carried out under section 185 of the Water Industry Act 1991 in the company's capacity as a sewerage undertaker;
- charges for the reception and disposal by the Appointee, or other person specified by the Appointee or, as the case may be, the Water Authority, of matter delivered to the Appointee or such other person by a collection authority in pursuance of section 14(9) of the Control of Pollution Act 1974;
- charges for unmeasured supplies of water to cattle troughs;
- charges for unmeasured building water supplies;
- amounts payable in respect of an unmeasured supply of water by means of bowsers or water tankers;
- charges for unmeasured supplies of water to farm taps and other agricultural water points;
- amounts payable under any such agreement as is described in section 20(1)(b) of the Water Resources Act 1991 (including any such agreement entered into by the Water Authority under section 81 of the Water Resources Act 1963 with respect to any of the matters referred to in sections 81(1)(b) and 81(1)(d) of that Act as, by virtue of

paragraph 29(1) of Schedule 26, has effect on and after the transfer date as a thing done by the Appointee); and

- charges payable under any agreement for any unmeasured supply of water or unmeasured sewerage services which are calculated by reference to the rateable value of hereditaments, occupied by the person to whom the supply or services are provided, fixed in accordance with section 32, 33 or, as the case may be, 34 of the General Rate Act 1967 or, as the case may be, fixed in accordance with section 54 of the Local Government Finance Act 1988.

The current Excluded Charge in Condition B for amounts payable in relation to diversion works (the alteration or removal of any relevant pipe or other apparatus) that the Appointee is required to carry out under the New Roads and Street Works Act 1991 or any other statutory provision except a provision of the Water Industry Act 1991 only applies to the period from 1 April 2020 to 31 March 2025. Price Controls will therefore apply to these activities from 1 April 2025.

2. Price Controls

2.1 Price Controls for Network Plus Activities

In respect of the Appointed Business's Network Plus Activities, except those activities for which there are Excluded Charges, there shall be:

- one single Price Control in respect of the Appointed Business's Network Plus Water Activities; and
- one single Price Control in respect of the Appointed Business's Network Plus Wastewater Activities.

Each such Price Control will consist of in each Charging Year:

- the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for the immediately preceding November; and
- a number, "K", which may be a positive number or a negative number or zero.

Together these shall be expressed as a percentage and limit the change in the revenue allowed to the Appointed Business in each Charging Year in respect of the Network Plus Activities concerned.

For each Charging Year starting on or after 1 April 2025 the revenue allowed to the Appointed Business in respect of the Network Plus Activities concerned will be the product of the following formula:

$$R_t = R_{t-1} \times \left(1 + \frac{CPIH_t + K_t}{100} \right)$$

In relation to the Price Control for Network Plus Water Activities, the "K" numbers for each Charging Year are set out in Table 1.

Table 1: Price Control for Network Plus Water Activities 'K' numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
K number	54.07	11.14	6.04	5.40	1.70

In relation to the Price Control for Network Plus Wastewater Activities, the "K" numbers for each Charging Year are set out in Table 2.

Table 2: Price Control for Network Plus Wastewater Activities 'K' numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
K number	60.13	-8.54	0.31	2.19	2.46

2.2 Price Control for Water Resources Activities

In respect of the Appointed Business's Water Resources Activities, except those activities for which there are Excluded Charges, the Price Control shall consist of, in each Charging Year:

- the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for the immediately preceding November; and
- a number, "K", which may be a positive number or a negative number or zero.

Together these shall be expressed as a percentage and limit the change in the revenue allowed to the Appointed Business in each Charging Year.

For each Charging Year starting on or after 1 April 2025 the revenue allowed to the Appointed Business in respect of the Water Resources Activities concerned will be the product of the following formula:

$$R_t = R_{t-1} \times \left(1 + \frac{CPIH_t + K_t}{100} \right)$$

The "K" numbers for each Charging Year are set out in Table 3.

Table 3: Price Control for Water Resources Activities 'K' numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
K number	41.26	53.52	-17.70	5.98	6.12

2.3 Price Control for Bioresources Activities

In respect of the Appointed Business's Bioresources Activities, except those activities for which there are Excluded Charges, the Price Control shall consist of, in each Charging Year:

- a total amount of revenue which is modified to reflect differences between outturn sludge production and forecast sludge production;
- an adjustment to reflect any over- or under-recovery of revenue in previous Charging Years; and
- an adjustment to reflect any profit made by the Appointed Business where assets belonging to the Appointed Business are used by any other person (or by any business or activity of the Appointee other than the Appointed Business)

and shall limit the revenue allowed to the Appointed Business in each Charging Year starting on or after 1 April 2025. The Price Control shall be calculated by the following formula:

$$R_t = MR_t - ABR_t - \left[T_{t-2} \times \left(1 + \frac{CPIH_{t-1}}{100} \right) \times \left(1 + \frac{CPIH_t}{100} \right) \right]$$

Where:

$$MR_t = [UR_t + (ATDS_t - FTDS_t) \times TR] \times CPIH \text{ adjustment factor}_t$$

$$ABR_t = (RR_{t-2} - R_{t-2}) \times \left(1 + \frac{D}{100} \right)^2 \times \left(1 + \frac{CPIH_{t-1}}{100} \right) \times \left(1 + \frac{CPIH_t}{100} \right)$$

UR_t Unadjusted revenue. This is the total revenue allowed to the Appointed Business in each Charging Year starting on or after 1 April 2025 based on the forecast amount of sludge produced. It is set out in Table 4 below.

MR_t Modified revenue. This is the unadjusted revenue allowed to the Appointed Business which is modified to reflect differences between outturn sludge production and forecast sludge production.

ABR_t Bioresources revenue adjustment. This is the difference between the Appointee's allowed revenue and the revenue actually recovered in a Charging Year two years before Charging Year t in respect of Bioresources Activities. Inflation and financing adjustments for two years are applied to this difference. In the Charging Years starting 1 April 2025 and 1 April 2026, this term shall have the value of zero.

T_{t-2} Profit from bioresources trading. This is the profit from bioresources trading in year t-2 expressed in outturn prices in £ millions. When appointed assets are used for sludge imports (non-appointed activities), the company will determine a transfer price. This should include at least the incremental cost of treating the imported sludge plus a proportion of the margin from the trade. Companies must act in accordance with the [RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors](#) when setting their transfer price. The T_{t-2} profits from bioresources trading will be the margin element of the transfer prices earned for trades that occur in year t-2. In the Charging Years starting 1 April 2025 and 1 April 2026, this term shall have the value of zero.

ATDS_t Actual volume of sludge (TDS). This is the total amount of sludge produced, measured as tonnes of dried solid sludge (TDS) during the Charging Year produced by the whole service. This will be known after the end of the Charging Year. When setting charges for the Charging Year, companies should use the best available estimate of what ATDS_t would be.

FTDS_t Forecast volume of sludge (TDS). This is the forecast volume of sludge produced in year t as set out in Table 4 below.

TR Total revenue. The adjustment to allowed revenue reflecting differences between outturn sludge production and forecast sludge production. It is expressed in £ per tonnes of dried solid sludge (TDS) as set out in Table 4.

Table 4: Price Control for Bioresources Activities

Charging year beginning 1 April	2025	2026	2027	2028	2029	Total for all five charging years
Unadjusted revenue, UR _t (£ million, 2022-23 FYA CPIH deflated prices)	67.065	67.538	68.083	68.494	70.116	341.295
Forecast volume of sludge, FTDS _t (TDS)	117,508	118,336	119,292	120,011	122,853	598,001
Total revenue, TR (£/TDS, 2022-23 FYA CPIH deflated prices)						570.727

2.4 Price Control for Residential Retail Activities

In respect of the Appointed Businesses' Retail Activities, there shall be one single Price Control for the Appointed Business's Retail Activities relating to the supply of water and the provision of sewerage services to household premises (as defined in section 17C of the Water Industry Act 1991) ("**Residential Retail Activities**").

The Price Control for Residential Retail Activities:

- shall consist of a limit on the total revenue allowed to the Appointed Business in each Charging Year in respect of the Retail Activities concerned; and

- is set for a period of five consecutive Charging Years starting on 1 April 2025.

The total revenue allowed to the Appointed Business in each Charging Year in respect of Residential Retail Activities is **M** as set out in Table 5 multiplied by the average number of individual household premises (as defined in section 17C of the Water Industry Act 1991) that are supplied or served by the Appointed Business in a Charging Year).

Table 5: Price Control for Residential Retail Activities numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
M (£, outturn)	38.84	47.43	49.29	50.20	51.15

3. Demonstrating Compliance with the Price Controls

The Appointee shall provide such information as Ofwat may reasonably require in relation to annual regulatory reporting to demonstrate how the Appointee is complying, or has complied, with its obligation to levy charges in a way best calculated to comply with each Price Control applicable to it.

A1 Notified Items and Land Sales

Notified Items

Ofwat gives notice that the following items have not been allowed for when making the Determination:

1. Cyber security

Any increase in costs in the period from 1 April 2025 that is reasonably attributable to:

- (a) any new or changed legal requirement that applies to the Appointee in its capacity as a water undertaker or sewerage undertaker; or
- (b) any new or changed guidance issued by the Cabinet Office or other body of competent jurisdiction about the level of threat that relevant undertakers need to take into account

in relation to the technical and organisational measures that the Appointee must take, or would be reasonably expected to take, to:

- (i) manage risks posed to the security of the network and information systems on which the Appointed Business relies;
- (ii) prevent and minimise the impact of incidents affecting the security of the network and information systems used for the purpose of carrying out the Regulated Activities, with a view to ensuring the continuity of the services provided by the Appointee in the course of carrying out the Regulated Activities.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"network and information systems" has the same meaning as in the Network and Information Systems Regulations 2018 (SI 2018/506).

Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this

purpose what constitutes “prudent management action” shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

2. Per- and poly fluoroalkyl substances (PFAS)

Any increase in capital expenditure to carry out works at treatment works to ensure the safety of drinking water with respect to per- and poly fluoroalkyl substances ("PFAS") in the period from 1 April 2025, beyond those costs and work that Ofwat allowed for when making the final determination of Price Controls, in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Appointee has completed the necessary investigations to identify the works that are required to enable the Appointee to properly carry out its functions as a water undertaker; and
- (b) the works are required by a new notice given on or after 20 December 2024 under regulation 28(4) of the Water Supply (Water Quality) Regulations 2016.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"drinking water" means water supplied by the Appointee or a water supply licensee that is intended for human consumption; and

"treatment works" means any treatment works developed or maintained by the Appointee for the purpose of complying with its duty under section 37 of the Water Industry Act 1991.

Additional notes:

1. In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes “prudent management action” shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).
2. Whether the necessary investigations to identify the works that are required to enable the Appointee to properly carry out its functions as a water undertaker have been completed will be assessed by reference to the undertaking given to the Secretary of State under

section 19(1)(b) of the Water Industry Act 1991 in relation to the Appointee's AMP8 PFAS Strategy and the Drinking Water Inspectorate Guidance to water companies entitled "Guidance on the Water Supply (Water Quality) Regulations 2016 (as amended) for England and Water Supply (Water Quality) Regulations 2018 for Wales specific to PFAS (per- and polyfluoroalkyl substances) in drinking water" (August 2024).

3. Costs resulting from changes to the legal requirements in respect of sludge spreading

Any increase in costs in the period from 1 April 2025 that is reasonably attributable to:

- (a) any new or changed legal requirement in relation to the application to agricultural land of fertiliser derived from sludge, whether or not that requirement applies to the Appointee;
- (b) any new or changed guidance issued, or direction given, by the Secretary of State or the Welsh Ministers under any enactment or subordinate legislation to the Environment Agency or the Natural Resources Body for Wales with respect to the exercise of its functions in relation to the application to agricultural land of fertiliser derived from sludge.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"legal requirement" means any of the following:

- a. any enactment or subordinate legislation;
- b. any licence, consent or authorisation given or to be given by the Secretary of State, the Welsh Ministers, the Environment Agency, the Natural Resources Body for Wales or other body of competent jurisdiction; and
- c. any interpretation of law, or finding, contained in any judgment given by a court or tribunal of competent jurisdiction in respect of which the period for making an appeal has expired which requires any legal requirement falling within (a) or (b) above to have effect in a way:
 - i. different to that in which it previously had effect; or
 - ii. different to that in which it was taken to have effect:
 - (A) for the purpose of making a Relevant Determination; or, as the case may be,

(B) in determining whether a Relevant Determination should be changed; and

"sludge" means sludge produced by sewage disposal works.

Additional note: In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

4. Changes in charges payable under the Havant Thicket Agreement

Any change in the charges payable by the Appointee to Portsmouth Water Limited ("Portsmouth Water") under the Havant Thicket Agreement:

- (a) in relation to Charging Years beginning on or after 1 April 2025; and
- (b) as a result of Ofwat's decision as to what changes should be made to the total expenditure allowance in relation to Portsmouth Water's Price Control for Havant Thicket Activities due to (i) ground conditions, and (ii) the 2024 changes to the designation of Havant Thicket Activities.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"Havant Thicket Agreement" includes any new or additional agreement between the Appointee and Portsmouth Water in respect of the Havant Thicket Activities.

Additional notes:

1. In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).
2. Ofwat's decision as to what changes should be made to the total expenditure allowance in relation to Portsmouth Water's Price Control for Havant Thicket Activities due to (i) ground

conditions, and (ii) the 2024 changes to the designation of Havant Thicket Activities will be made as part of the second Havant Thicket cost adjustment mechanism (CAM2).

5. [WTW1] and [WTW2] Water Treatment Works scheme

Any increase in costs in the period from 1 April 2025, beyond those that Ofwat allowed for when making the final determination of Price Controls, that is reasonably attributable to the Scheme in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Scheme is still required to enable the Appointee to properly carry out its functions as a relevant undertaker; and
- (b) such costs are not reasonably recoverable otherwise than through charges or revenue in respect of which Price Controls are set.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"the Scheme" means, subject to any changes agreed by Ofwat, the scheme proposed to Ofwat by the Appointee as part of the 2024 Periodic Review and set out in the Appointee's Business Plan submission document "SRN25 Supply Resilience Enhancement Programme" for the upgrade of existing treatment processes at [WTW1] and [WTW2] water treatment works to ensure resilience of supply. It includes both resilience at the existing treatment works and supply solutions in the gated process.

Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

6. Hastings & Isle of Sheppey resilience scheme

Any increase in costs in the period from 1 April 2025, beyond those that Ofwat allowed for when making the final determination of Price Controls, that is reasonably attributable to the

Scheme in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Scheme is still required to enable the Appointee to properly carry out its functions as a relevant undertaker; and
- (b) such costs are not reasonably recoverable otherwise than through charges or revenue in respect of which Price Controls are set.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"the Scheme" means, subject to any changes agreed by Ofwat, the Network resilience schemes in the Hastings and Ise of Sheppey water resource zones proposed to Ofwat by the Appointee as part of the 2024 Periodic Review and set out in the Appointee's draft determination representation document "SRN-DDR-037 - Water Network Resilience and Disinfection Enhancement Cost Evidence Case":



Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

7. Sandown Wastewater treatment Works reuse scheme

Any increase in costs in the period from 1 April 2025, beyond those that Ofwat allowed for when making the final determination of Price Controls, that is reasonably attributable to the Scheme in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Scheme is still required to enable the Appointee to properly carry out its functions as a relevant undertaker; and
- (b) such costs are not reasonably recoverable otherwise than through charges or revenue in respect of which Price Controls are set.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"the Scheme" means, subject to any changes agreed by Ofwat, the scheme proposed to Ofwat by the Appointee as part of the 2024 Periodic Review and set out in the Appointee's Business Plan submission document "SRN26 Water Resources – Supply" and updated in its draft determination representation document "SRN-DDR-028 - Water Resources - Supply Enhancement Cost Evidence Case" for:

- (a) a new water recycling plant to be located on the identified old landfill site next to Sandown waste water treatment works;
- (b) a transfer pipeline to the River Yar;
- (c) additional tertiary treatment will also be required at the existing Sandown wastewater treatment works (WwTW) in order to adjust the process to reflect the introduction of the water recycling plant (WRP).

Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

8. Sittingbourne industrial reuse scheme

Any increase in costs in the period from 1 April 2025, beyond those that Ofwat allowed for when making the final determination of Price Controls, that is reasonably attributable to the Scheme in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Scheme is still required to enable the Appointee to properly carry out its functions as a relevant undertaker; and

- (b) such costs are not reasonably recoverable otherwise than through charges or revenue in respect of which Price Controls are set.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"the Scheme" means, subject to any changes agreed by Ofwat, the Sittingbourne industrial reuse scheme proposed to Ofwat by the Appointee as part of the 2024 Periodic Review and set out in the Appointee's Business Plan submission document "SRN26 Water Resources – Supply" to free up additional volume in a borehole abstraction licence currently used in commercial paperboard making processes. This scheme involves development of both a water recycling plant and water supply works, as well as associated transfer pipelines, to facilitate abstraction licence trading with the papermill.

Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

9. Whitfield scheme

Any increase in costs in the period from 1 April 2025, beyond those that Ofwat allowed for when making the final determination of Price Controls, that is reasonably attributable to the Scheme in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Scheme is still required to enable the Appointee to properly carry out its functions as a relevant undertaker; and
- (b) such costs are not reasonably recoverable otherwise than through charges or revenue in respect of which Price Controls are set.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointments of Southern Water Services Limited as a water and

sewerage undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.

2. For the purposes of this Notified Item:

"the Scheme" means, subject to any changes agreed by Ofwat, the scheme proposed to Ofwat by the Appointee as part of the 2024 Periodic Review and set out in its draft determination representation document "SRN-DDR-048 - Wastewater Treatment Growth Enhancement Cost Evidence Case" for the construction of a new wastewater treatment works at Whitfield.

Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

Land Sales

For the purposes of the Determination, Ofwat gives notice that for each of the five consecutive Charging Years starting on or after 1 April 2025:

- the value attributable to Relevant Disposals of Land allowed for in making the determination is zero; and
- variations in value received or expected to be received from Relevant Disposals of Land shall constitute a Relevant Change of Circumstance.

A2 Performance Commitments with in-period financial adjustments

Ofwat notifies the Appointee in accordance with Part 3A of Condition B that the Price Controls determined in respect of the Appointee's Retail Activities, Water Resources Activities, Network Plus Water Activities, Network Plus Wastewater Activities and Bioresources Activities may be adjusted to reflect the Appointee's performance in relation to the following Performance Commitments:

Table A2.1: In-period financial Performance Commitments – Common PCs

Name of common Performance Commitment	Price Controls adjustments will apply to
C-MeX	100% Residential Retail Activities
D-MeX	Network Plus Water Activities and Network Plus Wastewater Activities. The allocation between both controls will vary each reporting year based on the relative outturn developer services revenues collected by the company for water and wastewater services.
BR-MeX	50% Network Plus Water Activities and 50% Network Plus Wastewater Activities
Water supply interruptions	100% Network Plus Water Activities
Compliance Risk Index (CRI)	100% Network Plus Water Activities
Customer contacts about water quality	100% Network Plus Water Activities
Internal sewer flooding	100% Network Plus Wastewater Activities
External sewer flooding	100% Network Plus Wastewater Activities
Biodiversity	40% Water Resource Activities, 20% Network Plus Water Activities and 40% Network Plus Wastewater Activities
Operational greenhouse gas emissions (water)	15% Water Resource Activities and 85% Network Plus Water Activities
Operational greenhouse gas emissions (wastewater)	85% Network Plus Wastewater Activities and 15% Bioresources Activities
Leakage	100% Network Plus Water Activities
Per capita consumption (PCC)	50% Water Resource Activities and 50% Network Plus Water Activities
Business demand	50% Water Resource Activities and 50% Network Plus Water Activities
Total pollution incidents	100% Network Plus Wastewater Activities
Serious pollution incidents	100% Network Plus Wastewater Activities
Discharge permit compliance	7.27% Network Plus Water Activities and 92.73% Network Plus Wastewater Activities
Bathing water quality	100% Network Plus Wastewater Activities
Storm overflows	100% Network Plus Wastewater Activities
Repairs to burst mains	100% Network Plus Water Activities
Unplanned outage	100% Network Plus Water Activities
Sewer collapses	100% Network Plus Wastewater Activities

Table A2.2: Delayed Delivery Cashflow Mechanism

Performance Commitment	Price Controls adjustments will apply to
Water enhancement expenditure (2025-27): Enhancement expenditure incurred in the period from 1 April 2025 to 31 March 2027 is not less than 50% of the total enhancement expenditure allowed for the two consecutive Charging Years starting on 1 April 2025 in respect of Network Plus Water Activities and Water Resource Activities when the Price Controls for those activities were determined by Ofwat in 2024 or redetermined by the Competition and Markets Authority.	Water Resource Activities and Network Plus Water Activities
Water enhancement expenditure (2025-28): Enhancement expenditure incurred in the period from 1 April 2025 to 31 March 2028 is not less than 60% of the total enhancement expenditure allowed for the three consecutive Charging Years starting on 1 April 2025 in respect of Network Plus Water Activities and Water Resource Activities when the Price Controls for those activities were determined by Ofwat in 2024 or redetermined by the Competition and Markets Authority.	Water Resource Activities and Network Plus Water Activities
Wastewater enhancement expenditure (2025-27): Enhancement expenditure incurred in the period from 1 April 2025 to 31 March 2027 is not less than 50% of the total enhancement expenditure allowed for the two consecutive Charging Years starting on 1 April 2025 in respect of Network Plus Wastewater Activities and Bioresources Activities when the Price Controls for those activities were determined by Ofwat in 2024 or redetermined by the Competition and Markets Authority.	Network Plus Wastewater Activities and Bioresources Activities
Wastewater enhancement expenditure (2025-28): Enhancement expenditure incurred in the period from 1 April 2025 to 31 March 2028 is not less than 60% of the total enhancement expenditure allowed for the three consecutive Charging Years starting on 1 April 2025 in respect of Network Plus Wastewater Activities and Bioresources Activities when the Price Controls for those activities were determined by Ofwat in 2024 or redetermined by the Competition and Markets Authority.	Network Plus Wastewater Activities and Bioresources Activities

Table A2.3: Delivery Mechanism

Performance Commitment	First of the Charging Years in relation to which Price Controls could be adjusted	Price Control adjustments will apply to
By no later than 15 July 2026 provide sufficient information, including appropriate external assurance, to Ofwat to demonstrate, to the reasonable satisfaction of Ofwat, which schemes included in the Delivery Mechanism the Appointee:	2027-28	Network Plus Wastewater Activities

<ul style="list-style-type: none"> • can deliver by 1 April 2030 (or by no later than three months after that date); or • has already delivered. 		
<p>By no later than 15 July 2027 provide sufficient information, including appropriate external assurance, to Ofwat to demonstrate, to the reasonable satisfaction of Ofwat, which schemes included in the Delivery Mechanism the Appointee:</p> <ul style="list-style-type: none"> • can deliver by 1 April 2030 (or by no later than three months after that date); or • has already delivered. 	2028-29	Network Plus Wastewater Activities
<p>By no later than 15 July 2028 provide sufficient information, including appropriate external assurance, to Ofwat to demonstrate, to the reasonable satisfaction of Ofwat, which schemes included in the Delivery Mechanism the Appointee:</p> <ul style="list-style-type: none"> • can deliver by 1 April 2030 (or by no later than three months after that date); or • has already delivered. 	2029-20	Network Plus Wastewater Activities

Note: The schemes included in the Delivery Mechanism, and the adjustments to the revenue allowed under the relevant Price Control that would (subject to a time value of money adjustment) be made in relation to each scheme that Ofwat is reasonably satisfied the Appointee can deliver or has delivered, are set out in the "PR24CA150 Delivery Mechanism Allowances" model published by Ofwat, subject to any changes that the Appointee makes, no later than 31 July 2025, to the list of schemes included in the Delivery Mechanism.

Reconciliation for 2024–25 outturn performance in relation to financial performance commitments

Ofwat further notifies the Appointee in accordance with Part 3A of Condition B that the Price Controls determined in respect of the Appointee’s Retail Activities, Water Resources Activities, Network Plus Water Activities, Network Plus Wastewater Activities and Bioresources Activities may be adjusted to reflect the Appointee’s performance in the Charging Year beginning on 1 April 2024 (“2024–25 Charging Year”) in relation to all the Performance Commitments set out in the company-specific Outcomes performance commitment appendix (read together with the agreed corrections (if any) and changes published by Ofwat) to the determination of Price Controls by Ofwat pursuant to the 2019 Periodic Review. The adjustment to the relevant Price Control in relation to each such Performance Commitment would be the difference between:

- a. either:
 - i. the adjustment(s) to the revenue allowed to the Appointed Business that Ofwat made to reflect the Appointee’s forecast performance in the 2024–25 Charging Year in relation to that Performance Commitment when

- determining, pursuant to the 2024 Periodic Review, the Price Controls for the five consecutive Charging Years beginning on 1 April 2025; or
- ii. if there was no such adjustment, zero;

AND

- b. the adjustment(s) to revenue that Ofwat would have made when determining Price Controls pursuant to the 2024 Periodic Review if the Appointee's actual performance in the 2024-25 Charging Year in relation to that Performance Commitment had been known.

A3 Revenue Forecasting Incentive formula

Revenue Forecasting Incentive: Price Control for Network Plus Wastewater Activities

The RFI for network plus wastewater activities will be determined according to the following formula:

$$RFI_t = - (RR_{t-2} - AR_{t-2}) \times \left(1 + \frac{D}{100}\right)^2 \times (1 + CPIH_{t-1}) \times (1 + CPIH_t) - \frac{PR}{100} \times |RR_{t-2} - AR_{t-2}| \times \left(1 + \frac{D}{100}\right) \times (1 + CPIH_{t-1}) \times (1 + CPIH_t)$$

The RFI for network plus wastewater activities, **RFI_t**, the recovery of un-invoiced revenue from a failed retailer (**UIR_t × 0.5**), and any blind year adjustment, **BYA_t**, or delivery mechanism adjustment, **DMA_t**, is added to allowed revenues for network plus wastewater activities, **R_t**, to calculate adjusted allowed revenues for network plus wastewater activities, according to the following formula:

$$AR_t = R_t + BYA_t + DMA_t + RFI_t + (UIR_t \times 0.5)$$

Where:

$$DMA_t = TDMA \times Y_t \times \left(1 + \frac{D}{100}\right)^{T-2024} \times \text{CPIH adjustment factor}_t$$

Revenue Forecasting Incentive: Price Control for Network Plus Water Activities

The RFI for network plus water activities will be determined according to the following formula:

$$RFI_t = - (RR_{t-2} - AR_{t-2}) \times \left(1 + \frac{D}{100}\right)^2 \times (1 + CPIH_{t-1}) \times (1 + CPIH_t) - PS_{i,t} \times \frac{PR}{100} \times \left| RR_{t-2}^* - AR_{t-2}^* \right| \times \left(1 + \frac{D}{100}\right) \times (1 + CPIH_{t-1}) \times (1 + CPIH_t)$$

The RFI for network plus water activities, **RFI_t**, the recovery of un-invoiced revenue from a failed retailer (**UIR_t × 0.5**), and any blind year adjustment, **BYA_t**, is added to allowed revenues for network plus water activities, **R_t**, to calculate adjusted allowed revenues for network plus water activities, according to the following formula:

$$AR_t = R_t + BYA_t + RFI_t + (UIR_t \times 0.5)$$

Revenue Forecasting Incentive: Price Control for Water Resources

The RFI for water resources activities will be determined according to the following formula:

$$RFI_t = - (RR_{t-2} - AR_{t-2}) \times \left(1 + \frac{D}{100}\right)^2 \times (1 + CPIH_{t-1}) \times (1 + CPIH_t) - PS_{i,t} \times \frac{PR}{100} \times \left| RR_{t-2}^* - AR_{t-2}^* \right| \times \left(1 + \frac{D}{100}\right) \times (1 + CPIH_{t-1}) \times (1 + CPIH_t)$$

The RFI for water resources activities, **RFI_t**, the recovery of un-invoiced revenue from a failed retailer (**UIR_t × 0.5**), and any blind year adjustment, **BYA_t**, is added to allowed revenues for water resources activities, **R_t**, to calculate adjusted allowed revenues for water resources activities, according to the following formula:

$$AR_t = R_t + BYA_t + RFI_t + (UIR_t \times 0.5)$$

Where for each of controls to which the RFI relates:

$$BYA_t = TBYA \times Y_t \times \left(1 + \frac{D}{100}\right)^{T-2024} \times \text{CPIH adjustment factor}_t$$

AR_{t-2} is the adjusted allowed revenue stated in £ millions in charging year t-2 with the first year starting on 1 April 2025.

RR_{t-2}^{*} has the same meaning as **RR_{t-2}**, except in this case this applies to the sum of both the network plus water and water resources controls.

AR_{t-2}^{*} has the same meaning as **AR_{t-2}**, except in this case this applies to the sum of both the network plus water and water resources controls.

PR is the penalty rate. Denoting the forecast error $(RR_{t-2}^* - AR_{t-2}^*) / AR_{t-2}^* = x\%$, the penalty rate is:

- 3% for all variations if $|x\%| > 3\%$;
- $3\% * (|x\%| - 2\%) / (3\% - 2\%)$ if $2\% < |x\%| \leq 3\%$; and
- zero if $|x\%| \leq 2\%$.

The result enters the above formulas as a number. For example, for a penalty rate of 3%, PR enters the formula as number 3.

PS_{i,t} is the share of the penalty that the Appointee chooses to allocate to the control in charging year t,

- where i = network plus water or water resources control; and

- the PS_i values must sum to one¹ for each charging year.

BYA_t is the blind-year adjustment, stated in £ millions, to the allowed revenue of the relevant network plus or water resources control in each year over the charging years 2026–27 to 2029–30, inclusive.

DMA_t is the delivery mechanism adjustment, stated in £ millions, to the allowed revenue of the network plus wastewater control in each year over the charging years 2026–27 to 2029–30, inclusive.

UIR_t The total amount in £ millions owed to the Appointed Business for activities in charging year $t-2$ to which the relevant network plus or water resources Price Control applies by one or more Licensees that have ceased to be a legal entity (or, if the Licensee is an individual, has died) in relation to the period following the end of the period that was covered by the last invoice issued to the Licensee by the Appointee for those activities.

$TBYA$ is the blind year adjustment stated by Ofwat in 2022–23 year average prices. The blind year adjustment will be announced by Ofwat at a future date. The adjustment will be based on:

- (a) the difference between forecast and actual performance for the 2024–25 Charging Year in relation to the Revenue Forecasting Incentive (RFI) model, the cost of new debt reconciliation model, Tax reconciliation, Cost sharing & total costs reconciliation, the RPI-CPIH wedge reconciliation model, the Developer services reconciliation adjustment mechanism, the Strategic regional water resources model and the Water Trading Incentive model applied in relation to the 2020 to 2025 Price Control period; and
- (b) the correction of any unambiguous revenue errors in relation to the revenue allowed to the Appointee that Ofwat made when determining the Price Controls for the five consecutive Charging Years beginning on 1 April 2025.

It will be a correction to the revenue allowed by Ofwat when determining, pursuant to the 2024 Periodic Review, the Price Controls for water resources and network plus activities for the five consecutive Charging Years beginning on 1 April 2025. The adjustment will not include the 2024–25 performance commitments.

$TDMA$ is the delivery mechanism adjustment stated by Ofwat in 2022–23 year average prices. The delivery mechanism adjustment will be announced by Ofwat at a future date. The adjustment will be based on the difference, if any, between the final list of schemes that the Appointee confirms (no later than 31 July 2025) are included in the delivery mechanism and the list of schemes that Ofwat assumed would be in the delivery mechanism when making its final determination. It will be a correction to the revenue allowed by Ofwat when

¹ That is, $PS_{\text{water resources}} + PS_{\text{water network plus}} = 1$

determining, pursuant to the 2024 Periodic Review, the Price Control for network plus wastewater activities for the five consecutive Charging Years beginning on 1 April 2025.

Y_t is the share of the blind year adjustment or the delivery mechanism adjustment that the company has elected to receive in Charging Year t within the period of five consecutive Charging Years starting on 1 April 2025. This allows the company to spread the impact of the blind year adjustment over the relevant years. The Y_t values across all of the charging years for each relevant Price Control must:

- sum to one, if the blind year adjustment is negative;
- sum to one or less, if the blind year adjustment is positive; and
- be greater than or equal to zero.

T = the year in which the relevant charging year begins – for example:

- for the charging year 2027-28 then $T = 2027$;
- for the charging year 2028-29 then $T = 2028$; and
- for the charging year 2029-30 then $T = 2029$.

A4 Glossary

Common terms used in formulae in this document are defined below.

Term	Where used	Definition
$CPIH_t$	Network-plus, water resources, bioresources, RFI	The percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for the immediately preceding November.
CPIH adjustment factor _t	Water resources, bioresources, RFI	One plus the percentage change in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for November 2021.
D	Water resources, RFI	The specified discount rate of 3.97.
FYA CPIH	Water resources, bioresources	The percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the average level of the Consumer Prices Index (H) across the twelve months of the Charging Year compared to the average level of the Consumer Price Index (H) across the twelve months of the Prior Year.
K_t	Network-plus, water resources	A specified number for the relevant Charging Year which may be a positive number or a negative number or zero.
t	All	A suffix added to a term to indicate the Charging Year. For example, R_t refers to the relevant Charging Year.
t-1	All	A suffix added to a term to indicate the Prior Year. For example, R_{t-1} refers to the Charging Year starting one year before the start of the relevant Charging Year.
t-2	All	A suffix added to a term to indicate the Charging Year commencing on 1 April immediately prior to the Prior Year. For example, R_{t-2} refers to the Charging Year starting two years before the start of the relevant Charging Year.
R_t	Network-plus, water resources, bioresources	Revenue stated in £ millions allowed to the Appointed Business in a Charging Year by a Price Control in respect of the activities concerned.
RR_t	Bioresources, RFI	The revenue stated in £ millions recovered by the Appointed Business in a Charging Year in outturn prices. In both the RFI and Price Control for Bioresources Activities, the first year, t, starts on 1 April 2027 so that year t -2 starts on 1 April 2025.

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

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OGL



David Black
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Date: 18 February 2025

By post and email - [REDACTED]

Dear David

Request for reference to the Competition and Markets Authority (CMA) of Ofwat's PR24 Final Determination in respect of Southern Water further to section 12 of the Water Industry Act 1991

I write to inform you that, after careful consideration, the Board of Southern Water has determined that it is not able to accept Ofwat's PR24 Final Determination.

In accordance with section 12 of the Water Industry Act 1991 and Condition B16.1 of our Instrument of Appointment, we request that Ofwat refers the Final Determination for redetermination by the CMA. We confirm that, as required by Condition B16.3, this reference request applies to the Final Determination in respect of all our activities, i.e., Network Plus Activities, Water Resources Activities, Bioresources Activities and Retail Activities.

This is not a decision that our Board has taken lightly. We recognise the improvements to the Draft Determination reflected in the Final Determination and the further corrections and clarifications provided since then. However, the Board has concluded that the Final Determination sets out a price control package that subjects Southern Water to a significant and disproportionate negatively skewed risk and contains a number of fundamental flaws and omissions that require redetermination by the CMA.

We will invite the CMA to address these issues, errors and omissions and thereby ensure that Southern Water is better equipped in AMP8 and beyond to deliver the environmental and performance improvements and new infrastructure that our customers and communities rightly expect.

We look forward to working constructively with Ofwat throughout the coming process and more broadly in relation to all areas of our engagement with each other.

Yours sincerely

A solid black rectangular box used to redact the signature of Lawrence Gosden.

Lawrence Gosden
Chief Executive Officer