

Havant Thicket – Cost Adjustment: Ofwat Draft Decision

This consultation response from Otterbourne Parish Council is provided on behalf of the residents of Otterbourne who are also Southern Water customers.

[Please note – we feel the consultation period for this complex subject matter is too short and has been made worse having been staged over the busy Christmas/New Year holidays]

We welcome the Ofwat cost adjustment decision that now gives certainty over the total project cost Portsmouth Water will be allowed and can be recovered through the bulk supply agreement with Southern Water. We also welcome the cost efficiency challenge (8.2% - 9.6%) the decision places on Portsmouth Water and helps to incentivise them to deliver the project successfully. This will help to reassure Southern Water customers that the amount they pay through their future water bills will be contained in respect of this large and costly infrastructure project.

We also welcome the proposed commercial incentive of sharing cost overruns and savings 50:50 between Portsmouth Water's shareholders and Southern Water and its customers. In particular the intention to give Southern Water customers Portsmouth Water's share of potential savings (up to a cap of £5m) under the Main Pipeline Works contract as a result of an alternative pipeline route being pursued. Savings above the cap of £5m will be shared with Portsmouth Water shareholders in the same manner proposed for other savings realised on the project.

Although the Ofwat document invites comments on the information provided and the decision itself, we feel it also raises concerns from an end customer perspective. Key will be the proper management of expectations of Southern Water customers who will be pay for this and other large infrastructure projects either underway (e.g. current works at Otterbourne Water Supply Works) or proposed (e.g. the Hampshire Water Transfer and Water Recycling Project). Until receipt of this document the expectation of the vast majority of Southern Water customers was that the project would cost in the region of £140m!

Ofwat sets out various factors it considers to have driven the cost increase for Havant Thicket. However, without the detail behind these drivers it is still difficult to understand and accept why costs have risen so dramatically in the period since 2019 (PR19). A more realistic assessment at the PR19 stage of total costs including a pessimistic view of the costs of risks at that early stage would have served to better manage the expectations of Southern Water customers. We feel this lesson must be applied in the case of the proposed Hampshire Water Transfer and Water Recycling Project where costs are also going to be considerable. The perception that costs again spiral well above those of early estimates erodes confidence in these large projects and ultimately trust in those charged to plan and deliver them.

We appreciate these large and expensive infrastructure projects are aimed at ensuring future water supplies where demand is set to rise significantly whilst also protecting the sensitive chalk streams of the Test and Itchen rivers. However, Southern Water customers will need to be reassured they are being treated fairly through their water bills (paying for these projects) when compared with other consumers in the South East and elsewhere in

England. For example, in their joint webinar (7th December 2022) on the Draft Water Resource Management Plan, Southern Water and Portsmouth Water set out what can be expected in the average increase in water bills in the 5-year planning periods between 2025 and 2040 covering all planned water resource improvements (see table at foot of this document). The question then arises, do the planned increases given at the webinar presentation and in the draft WRMP cover the increased cost of the project and the realistic estimates for other proposed works? How can confidence and trust be developed and maintained in the ability to deliver the project to cost if initial estimates prove well short of real costs?

In their joint email covering Ofwat's document, the CEOs of Southern Water and Portsmouth Water said the costs of the project would be recovered over a long period without saying just how long this would be. However, the increase in water charges noted above would have also required an assumed projected payment period for the reservoir project! Southern Water customers who will pay for this project need to know this if confidence and trust in those charged to deliver the project is to be preserved.

As a means to improve transparency and openness, and hence maintain confidence and trust, we recommend that a statement is included in annual charge statements sent to Southern Water customers setting out:

- Total projected costs of Havant Thicket and other major infrastructure projects (e.g. Hampshire Water Transfer and Water Recycling Project if approved). Total costs split into: initial acquisition, operation and maintenance costs.
- Amount or percentage of acquisition costs already paid for through water charges and what is left to pay (similar to domestic mortgage annual statements).
- Projection of project completions and transition into full operation.
- Summary status of risk contingency budgets – how much spent and saved (see next paragraph).
- Weblink to detailed documentation.

We feel the level of customer side risk contingency is too high and should continue to be challenged throughout the project:

- The main reservoir contract is higher than benchmark figures suggest partly as a result of a greater level of risk transfer to the contractor.
- Evidence regarding risk provided by Portsmouth Water is insufficient and does not reflect the amount of contingency they suggest.

Strong governance arrangements need to be in place in which Southern Water customers are fully represented in the project to ensure the proper scrutiny and management of risks. This will ensure:

- Risks are properly logged and tracked.
- Release of funding to avoid, reduce or mitigate risks is properly authorised.
- Any savings of contingencies for risks not realised are formally logged and the proceeds fairly shared (and seen to be shared) between Portsmouth Water and Southern Water customers.

In conclusion, we support Ofwat's cost adjustment decision and the proposed commercial incentives in the project. However, we are concerned that the dramatic increase in total costs will come as a shock to the vast majority of our parishioners who are Southern Water

customers and will be asked to pay for this large and costly project. Much needs to be done to reassure them and other Southern Water customers that this and other infrastructure project are genuinely needed and the proposed approach provides “Best Value”. Furthermore, that Southern Water customers are being treated fairly in their water bills when compared with other water consumers in the South East and England.

Table below reproduced from the Southern Water and Portsmouth Water draft Water Resource Management Plan 2025-2075 (page 37).

“What this means for customers’ bills”

	AMP 8 (2025-30)	AMP9 (2030-35)	AMP 10 (2035-40)
Total Cost	£1,529m	£561m	£2,062m
Average increase from customers’ bills in 2019/2020	£84.57	£110.91	£178.14