

Coastal Population Cost Adjustment Claim

June 2023



from
**Southern
Water** 

Cost Adjustment Claim: Coastal Population

Name of claim	Coastal Population
Business Plan Tables where botex claim is reported	CWW18
Price control the claim relates to	WWN+
Total gross value of claim for AMP8	WWN+ =
Total implicit value of claim for AMP8	WWN+ =
Total net value of claim for AMP8	WWN+ =
Materiality for relevant price controls	WWN+ = £28m
DPC?	No

What is the claim for?

Serving coastal population has unique challenges, which present specific cost pressures to wastewater treatment. There are several factors that put cost pressures on coastal treatment works including:

- Requirements on effluent quality (Bathing Water and Shellfish obligations)
- Saline environment
- Space constraints
- Double pumping
- Peakiness (i.e., large variation around average load)
- Outfalls
- Stricter spill frequency
- Resilience costs

To capture these factors, in our January 2023 base models submission, we proposed a new variable to Ofwat's PR24 wastewater treatment models to account for the proportion of 'coastal' population in a company area. The variable proposed is exogenous, statistically significant with the right sign and plausible magnitude; improves models' quality and performance; and has a strong engineering rationale.

In the April 2023 consultation document 'Econometric base cost models for PR24', Ofwat stated "that the variable may be capturing a Southern Water specific impact, rather than an overall industry-wide impact of operating in coastal areas." ¹ Ofwat indicated that it would not include the coastal variable in the proposed sewage treatment models but asked for company views before making a final decision.

We continue to believe that coastal population is a valid cost driver which should be considered within the econometric models. However, should this not be the case, we will submit a full company specific cost adjustment claim with our Business Plan submission, to account for the unique circumstances we face.

References

- ¹ Ofwat, PR24 Econometric Base Cost Models Consultation, April 2023, p.46