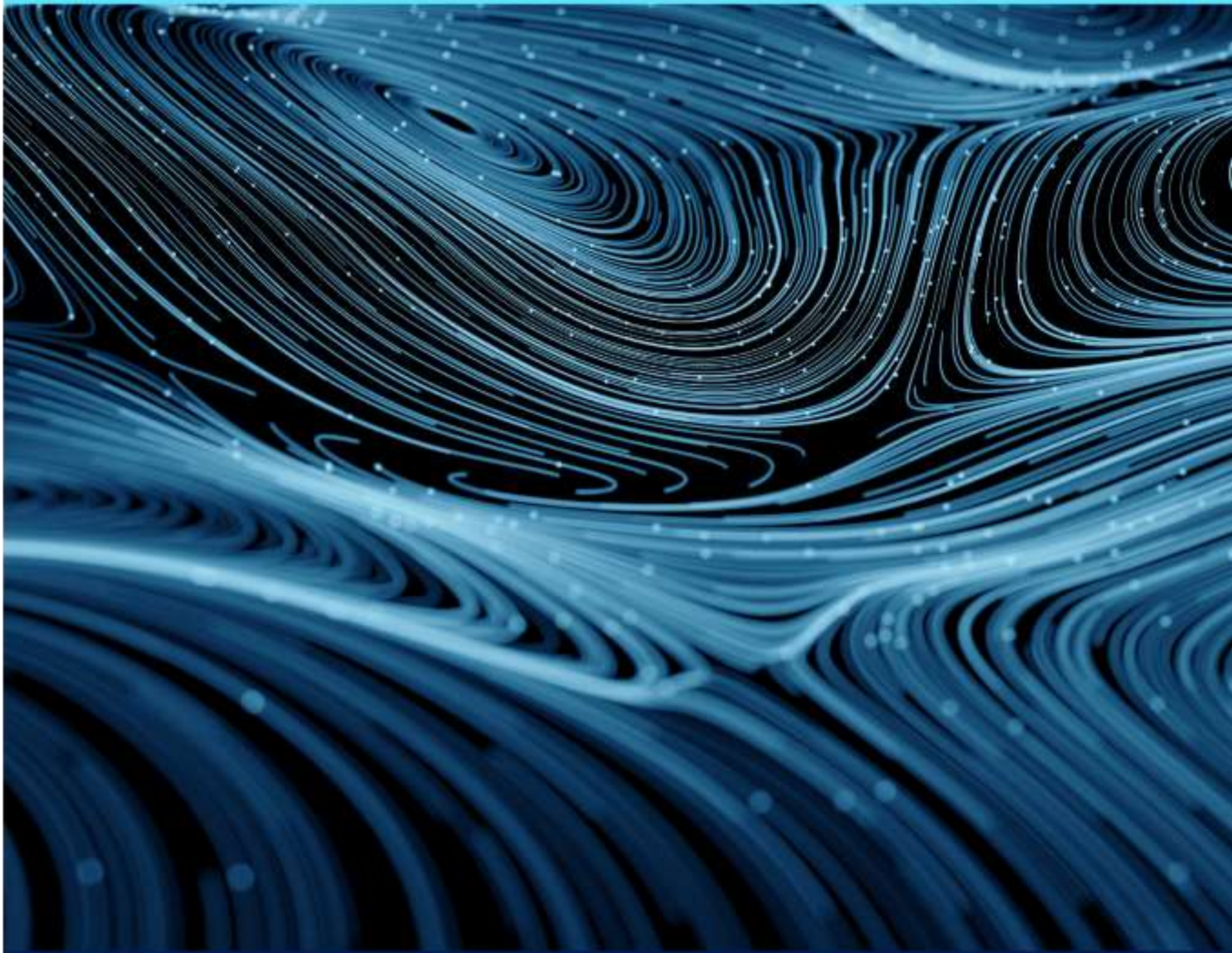

Large Gated Schemes – [redacted]

Independent Assurance Report

Revision: 3.0
Southern Water
Commercial Assurance

[redacted]

[redacted]

Large Gated Schemes – [redacted]

Client name: Southern Water

Project no: B2430117

Project name: Commercial Assurance

Project manager: [redacted]

Revision: 3.0

Date: 30 September 2025

Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
1.0	19/09/2025	Draft	[redacted]	[redacted]	[redacted]	[redacted]
2.0	25/09/2025	Updated draft – respond to SRN's comments	[redacted]	[redacted]	[redacted]	[redacted]
2.1	26/09/2025	Updated draft – respond to SRN's comments	[redacted]	[redacted]	[redacted]	[redacted]
2.2	29/09/2025	Final updated draft	[redacted]	[redacted]	[redacted]	[redacted]
3.0	30/09/2025	Final	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

This assurance was completed in accordance with the ISAE 3000 (Revised) standard including following ethical and quality requirements.

Attention: Southern Water board

Introduction

Large Schemes are those enhancement schemes within the investment programme where the requested value is greater than £100 million, and where Ofwat has concerns around scope, cost, deliverability, complexity, or if schemes involve novel elements or complex technologies.

For the 2025-2030 period Ofwat requires independent third-party assurance for delivery of enhancement schemes, confirming that companies are using the enhancement allowances to deliver the benefits that customers are paying for.

[redacted] have been requested to undertake commercial assurance to cover changes in cost (if any) proposed from PR24 business plan submissions and clearly identify the reasons for these changes.

Scope of Work and Approach

This assurance report provides the conclusions from the work specified in our Statement of Work, Southern Water Services - Statement of work- Large Gated Schemes v2, issued on 4 August 2025.

The assurance work was undertaken with the following limitations:

- A risk-based approach was implemented.
- A limited sample was assessed.

This limited assurance was performed in accordance with the ISAE 3000 (Revised) standard.

Lead Assurer's Curriculum Vitae (CV) is included in the Overarching Report.

Assurance Standards Applied

We conducted our limited assurance in accordance with the International Standard on Assurance Engagements (UK) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000 revised"). The Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

Duty of Care

Ofwat has introduced a new requirement in regard to duty of care where they expect the third-party assurance providers, such as [redacted] to provide an actionable duty of care to Ofwat.

To ensure compliance with Ofwat's new requirements we have issued a Letter of Reliance on 12th August 2025 which covers our assurance work on the Large Gated Schemes.

Conflict of Interest

In line with Ofwat's AMP8 requirements, we have proactively managed both real and perceived conflicts of interest in collaboration with your Risk and Assurance team. All audit team members signed a declaration before the audit programme began and have completed conflict of interest training. These declarations were recorded in our register. This year, we identified no actual or perceived conflicts.

Assurer Statement

Overall, based on our scope of work and the limited assurance undertaken up to the time of writing this report, we did not find any material misstatement.

We consider that:

- The values and figures reported by the company are consistent and correct with what was reported in the company's PR24 business plan
- The solution proposed for Submission 1 does not appear to exceed the specified requirements and/or provide poorer value for money than that proposed at Final Determination
- No evidence CBA has been undertaken or appraised appropriately on options presented for PR24. The optioneering seems to have been undertaken using scoring of high, medium and low for Capex and OPEX which is appropriate for long list options but Capex and Opex values should be generated for short listed options and WLC included in assessments. SRN have stated that CBA is planned for the early stages of Submission 2.
- SRN have presented the external benchmark as evidence of efficient costing. The benchmark was completed for direct costs only (excluding indirects and risk) and this showed the SRN estimate to be ~4% lower than the benchmark, which is considered reasonable. It is clear how the company have developed the detailed scope build up.
- The company has provided a cost breakdown of costs to Submission 1. Actual costs are included up to end August 2025 with costs for September being forecast. Costs have been converted to 22/23 prices. Cost buildup provided for Submission 2 based on delivery partner activities and includes an appropriate level of risk and overhead.
- The proposed solutions have been reviewed and no additional scope, costs or risk above that identified in the PR24 plan are proposed for Submission 1. SRN confirmed they are not submitting a Change Log.

Summary of Key Findings

The assurance was undertaken through the Microsoft Teams sessions combined with offline reviews. Key findings listed below are based on our review of SRN's final documentation provided on 16th September 2025 and/or the additional information provided by 26th September 2025 - documents reviewed are listed in Appendix A:

- Cost and other commercial data has been supplied in a format that can be read in Excel with linked data and no hard coded values.
- Project costs have been externally benchmarked. The costs are within acceptable tolerances and in our opinion an additional Anomaly and exclusion report is not required.
- The report proposes that 50% of the Ceramic process costs is covered in Water for Life Hampshire Project (WfLH) project – there is no evidence of this in the cost buildup and the total project Capex cost presented.
- Cost Benefit Analysis (CBA) of options has not been undertaken to date. Options were scored as L/M/H against Capex, OPEX, Carbon as well as social values (social, economic and environmental) for PR24. The option with Ceramics and GAC seems to be well progressed. SRN have confirmed that Whole Life Cost (including Opex costs) and CBA will be completed as part of Submission 2 activities.
- The values and figures reported by SRN are consistent with what was reported in the company's PR24 business plan and/or the previous gate and there are no changes to be accounted for in the Change Management Log. Delivery Plan figures in Table DPW4 do not align with the costs presented for LSG Submission 1. SRN have stated that Table DPW4 will be resubmitted as part of Submission 1.

- There are no areas where SRN is proposing to use solutions which exceed the specified requirements or provide poorer value for money than that proposed at Final Determination. Suitable justification has been provided, and we confirm that there is no material change since FD.
- The proposed solutions have been reviewed and no additional scope, costs or risk above that identified in the PR24 plan and/or the previously agreed gate are proposed for Submission 1. SRN confirmed they are not submitting a Change Log which is acceptable.
- A Risk Register has been provided which lists the key risks and owner. The risk register does not show the probability and scale of the impact, or the proposed mitigations. This project is at ECI stage with delivery partner now appointed for Stage 1 delivery. There have been no risks transferred to the contractor and this seems appropriate given the stage of the project. Costed risk register to be developed for Submission 2.
- The development cost (actual and forecast) to March 2026 is lower than the available budget allowance in 22/23 prices.
- Detailed cost buildup provided for Submission 2, but it is not relatable to activities to be undertaken during the period. There is a risk allocation and overhead in the buildup. High level programme provided.

Throughout our reviews, some material issues have been identified and most have been addressed for Submission 1. Three material issues remain which relate to:

- The optioneering seems to have been undertaken using scoring of high, medium and low for Capex and OPEX costs in order to rank options. This approach is appropriate for long list options but Capex and Opex should be generated for short listed options. The Submission should have an assessment of likely operating costs and WLC for each option reviewed. Any partial payment arrangement from WfLH should also be addressed in relation to OPEX.
- Section 3.2 of 30 page Submission. It states that 50% of the costs for the Ceramic Plant will be funded through the Havant Thicket (WfLH) project. However, there is no evidence in the cost buildup to support this statement as the full cost of the Ceramic process seems to be included in the cost presented [redacted] Text correction or cost buildup amendment will be required prior to the submission.
- The risks have not been assessed in accordance with Southern Water's Capital Delivery Programme Management Office's Risk Management Framework. The approach is not adequate for assessment of key risks, as mitigation as well as pre and post mitigation scores should be presented. A costed risk register would improve the quality of the risk register for the Submission.

[redacted]

[redacted]

Lead Assurer

Appendix A. Record of Evidence Reviewed

List of all documents reviewed as part of the audit:

Name	Description
Appendix A1 710087-SWS-ZZ-XX-DB-Z-00001-SCORING.xlsx	Options scoring – Capex, OPEX
Appendix A1 710087-SWS-ZZ-XX-DB-Z-00002.xlsx	Options Scoring – wider benefits
Appendix B1 4 Sites Cost Assurance Report v2 (1) (3).pdf	Benchmarking Report
Appendix B1 A8-0138-710087 - [redacted] Ceramic Plant R2.pdf	Detailed cost buildup - pdf
Appendix B1 A8-0138-710087 - [redacted] Ceramic Plant R2.xlsm	Detailed cost buildup - Excel
Appendix C1 and C3 250520_[redacted] ASG2 Programme Update.pdf	Delivery partner Programme
Appendix C1 CMDP - [redacted] Stage 1 - DRAFT Activity Schedule v2.1.xlsb	Cost breakdown of inputs to support Forecast to Submission 2
Appendix C2 CM835090 [redacted] Phase 4 DRAFT Risk Register 18 August 2025.pdf	Risk Register
Appendix G1 [redacted] Cost to date and Forecast to Submission 2.xlsx	Submission1 and Submission 2 cost buildup
Large Scheme Gated Submission 1 - [redacted] 30 Page Doc Template [redacted] Markup cg15 Sept clear (004).docx	30 page Submission

Supporting Documents:

Name
20250811 Final Draft Delivery Plan Tables v2.0.xlsx
SRN-DP-001 Delivery Plan Commentary Report.pdf
SRN15 Cost and Option Methodology[1]

[1] https://www.southernwater.co.uk/media/mjyp0of4/srn15-cost-and-option-methodology_redacted.pdf

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