

ENVIRONMENTAL SCRUTINY PANEL MINUTES

Tuesday 5 January 2021, Meeting via Microsoft Teams

Attendees

Chair:	Alison Thompson (AT)	
Secretariat:	Lorraine Taylor (LT)	
External Members:	Trevor Bishop (TB)	Water Resources South East (WRSE)
	Graham Hanson (GH)	Independent Chair, SES Water's CSP
	Karma Loveday (KL)	Independent
	Sarah Jane	Surrey Wildlife Trust
	Chimbwandira (SC)	
	Sarah Holloway (SH)	Independent
SES Water:	Jeremy Pelczer (JP)	Chairman of SES Water
	Tom Kelly (TK)	Wholesale Director
	Kate Thornton (KT)	Chief Customer Officer
	Cat Holland (CH)	Head of Communications
	Alison Murphy (AM)	Water Strategy Manager
	Henrietta Stock (HS)	Energy and Carbon Manager
	Sarah McLaughlin (SM)	Water Strategy Analyst
	Diana Evans (DE)	Compliance and Assurance Manager

Item No. Item

1 Chair's update

The Chair welcomed all the external ESP members and SES team. She reported for the record that the meeting was quorate and that apologies for absence had been received from Bella Davis (BD), Alice Laycock (AL) Tom Perry (TP) and Benoit Witchalls (BW). She also welcomed Kate Thornton (KT), CCO at SES and Jeremy Pelczer (JP), Chairman of SES who both provided a brief introduction.

Members were reminded to report any Declarations of Interest to the Chair. There were none to note.

The Chair read out the Statement of Independence:
"Our role on the Environmental Scrutiny Panel is to act independently to advise and challenge the company. We offer our views impartially and constructively for the long-term public interest".

The minutes from the October ESP meeting were reviewed and formally ratified by the Chair.

The Action Log, Challenge Log and Engagement Log were reviewed, and updates provided to the group.

TK reported that the reference to Action 4 on the action log relating to SES Water's approach to smart/universal metering, this topic will be discussed further at the next meeting in April 2021.

Before welcoming IC to provide his strategic CEO update, the Chair provided her update since the last meeting:

As we edge forward tentatively into this new year, there are at least three reasons for optimism: Biden is taking up the helm in two weeks and has vowed to make climate change a top priority; BREXIT has a (weak) deal; and the vaccines are being rolled out. 2020 ended with a blitz of policy announcements on climate change, not only in the UK, but globally, and COP26 is building up to be more important than its Paris predecessor. It needs to be given the concentration of carbon in the atmosphere continues to increase despite the pandemic.

Here in the UK, 2021 looks set to be the 'year of the environment' we promised ourselves in 2020: we have the Environment Bill going through Parliament, the Office for Environmental Protection (OEP) is being set up to oversee environmental governance in England post-Brexit, the application of the new agricultural policies, and the development of statutory targets for water, air, waste, and biodiversity to come. There are also interesting opportunities around high quality carbon offsetting, new carbon markets and the increasing focus on the role of land use in climate change policies.

3 key issues for us in the water sector:

1. Net Zero

- Water UK launched its Net Zero Routemap in November it estimates that 10 million tonnes of greenhouse gas can be saved through this strategic plan. We are going to focus on what this means for SES today.

2. Green economic recovery

- There is no additional incentive, or financial enabler for water companies beyond the final determinations to bring forward investment for a green economic recovery and of course affordability is a growing issue for customers in the pandemic. So regards Green economic recovery, recent national policy developments– not least the Autumn Budget, the National Infrastructure Strategy, and the 6th Carbon Budget - will provide momentum around decarbonising the economy on other fronts. Beyond this there is still scope for more radical reform through WINEP review being led by Defra and EA.

3. PR24

- Ofwat published several papers, including their reflections from the last price review and their initial thoughts for PR24 including the one circulated on purpose.

There are three areas of progress as we edge tentatively into 2021: climate change, loose Brexit deal and the roll out of the Covid-19 vaccine. There are also three areas which will affect the water sector which include net zero carbon - Water UK net zero route map published in November 2020; green economic recovery – no additional incentives being given by Ofwat and the PR24 process – papers were published prior to Christmas.

2 **Welcome to Jeremy Pelczer, Chair, SES Water**

JP provided background to his time working in the water industry and of his time since joining the Board of SES Water in 2013 which he now has only 15 months remaining until he steps down as Chairman in March 2022.

JP provided a summary of his reflections since joining the Board in 2013 to date which

included:

- operational integrity stands above financial goals at all times.
- great emphasis on customer engagement and voice of the customer
- H&S has always been a critical priority.
- welcomed a new CEO in February 2020
- adding to the leadership bench strength with the recruitment of John Gilbert, Chief Information Officer and Kate Thornton, Chief Customer Officer in late 2020
- strong mix of skills and experience with Board members who embrace the importance of transparency.
- the ESP and CSP greatly improves the independent nature of advice and challenges SES Water.
- the need to improve the evidence around trade-off of affordability and resilience.

JP also provided a summary looking ahead to March 2022 and beyond which included:

- build our position around the Edelman Trust Barometer on integrity, dependability, and purpose.
- people: safety and wellbeing of employees
- performance: providing service standards that exceed our customer expectations and delivering short-term PR19 PCs and the move to Net Zero by 2030 with an ESG strategy being approved by the Board of Directors and supported by the ESP during 2021/22
- pursuing innovative technologies
- employee engagement and communication; and ensuring that the Company has in place suitable resilience measures and procedures.
- finally, keep living the values of the Company.

The Chair thanked JP for attending the meeting and said how the close relationship with the Board on shared key issues was really valued.

3 **CEO's update**

IC provided an update on performance and the key challenges the Company have been facing since the last ESP meeting sharing his thoughts on recent company performance against the key performance commitments.

Since he joined SES Water in February 2020, the Company have faced many challenges from implementing an ambitious Business Plan, responding to demand issues, building the capability of resources within the Company, and dealing with the Covid-19 pandemic.

The pandemic has resulted in a delay with key investment programmes, impact on backlogs due to stopping work in the spring, additional support for vulnerable customers, however the pandemic has also enabled the Company to continue to invest in technology, the new education centre at Bough Beech, create C-Mex plans and work harder towards our approach to H&S.

The impacts of the pandemic continue to be felt across SES Water – both financially and in terms of performance commitment delivery.

Key challenges:

- Domestic demand (per capita consumption) remains significantly above average, the forecast of 156 MI/d is expected by the end of the year meaning our target will not be reached.
- Leakage is slightly off target however the forecast is expected to come in under Ofwat's target of 24.9 MI/d.
- Resilience: risk that supply target will be missed by a fine margin.

- C-Mex improved position in the league table.
- Softening: further stability on softening at Elmer Treatment Works

Despite these ongoing challenges, IC remains focussed on the following:

- People: keeping employees safe and well physically and mentally and responding effectively to Covid restrictions.
- Delivery of the Business Plan: leakage, Aptumo, C-Mex, governance, and cash position.

The Chair thanked IC for his update and opened the floor for questions.

KL questioned the extent to which SES Water had been affected by Covid-19 to date? IC reported that since March 2020 the impact had not been significant due to the Company responding quickly to demobilise however remobilise was an issue and since December there has been an increase in cases with the Company resulting in 5 positive cases.

4

Net Zero Route Map

- HS provided a summary of the Water UK Routemap as outlined in the reports circulated prior to the meeting and set out SES Water's approach to developing their own Net Zero Routemap.
- Water UK published their Net Zero 2030 Routemap on 12 November. There are four different paths within it towards embedding net zero: demand led, technology led, removal led and combined pathway. The key messages in relation to the Routemap is that it is ambitious, costly, cannot be done by the industry in isolation and requires policy and support for innovation. The challenges are that a sector plan is difficult to implement, measure, monitor and regulate. Ofwat have responded by publishing a PR24 Future Challenges document and a requirement to measure and report embodied carbon from 2021, mandatory by 2023.
- SES Water are developing their own 2030 routemap which will reflect their own strategy. There are five strategic focus areas for the 2030 commitment:
- Renewables – potential measures of success: electricity demand met by on-site renewables; electricity demand sourced through renewable PPAs and community ownership of on-site renewables.
- Energy efficiency – potential measures of success: reduction in electricity consumption (kWh) and electricity consumption sub-metered by asset.
- Water efficiency – potential measures of success: reduction in water abstracted each year (MI); customers with smart meters; customers on smart tariffs and new connections with rain/grey water supply.
- Fleet – potential measures of success: reduction in miles travelled and switch to Electric Vehicles.
- Fossil fuels – potential measures of success: reduction in gas consumption and reduction in gas oil consumption. Elmer Treatment Works has recently installed air sourced heat pumps in the chemical store.
- The Company's current PC for greenhouse gas is a flat 55 khCO₂eMI but to achieve net zero by 2030 we must target a reduction.
- The Company plan to engage with key stakeholders, SES Board, customers, employees, supply chain partners and ESP prior to the publication of the Routemap.
- HS shared a SWOT Analysis of where she thought SES was placed in developing

the Routemap to enable the ESP to focus their challenge and scrutiny effectively.

- The Chair thanked HS for her update and opened the floor for questions.
- SJC made three points:
- first **challenge** was “are there are opportunities to think about net positive impact alongside developing this Routemap that would potentially build a good foundation to be able to move towards the net positive more easily rather than having to start from scratch in 10 years’ time?”. She said a good example of that could encompass measures around transport, given that whilst electric vehicles were laudable, they still have impacts so the measure should be focused then on travelling fewer miles because people often forget that if we will move to electric vehicles, we still have the same number of vehicles on the roads which does not actually solve a lot of the problems in the big picture sense.
- The second **challenge** was the PR24 ambition, which focuses specifically on looking at protecting the environment from a climate perspective. SJC argued “it is important to look at protecting the environment from an ecosystem perspective not just a climate one. Can SES Water share their thinking about the ecosystem side of things alongside the carbon side of things so they can get themselves a little bit ahead of the game?”
- The third **challenge** was around trade-offs, she asserted that any of the decisions that are made will require a trade off, and it could be a trade-off between climate and biodiversity or between climate and operation of the business. “How can SES Water ensure transparency around where trade-offs are being made, regards climate and biodiversity because they could be perfectly legitimate but nevertheless need that transparent approach?”.
- TB asked a couple of questions:
- His first **challenge**, “does the glide path that you have currently take into account operational carbon that will come from investment planned over that time period as well or is it today's carbon starting from a fixed point?”
- The second point was around how SES had highlighted well the challenge around embodied carbon. WRSE are working with government and regulators to agree what is the nominal target or aspiration. Net zero on embodied carbon by 2030 is probably not a reasonable approach now for several reasons. When we look at the impacts of embodied carbon, the ability to offset and trade between companies across the regions is going to be incredibly important and it might be good to do some thinking about how that might work.
- The third point was about water efficiency, it was perhaps quite a small contribution to the journey to net zero he noted. That is because you would consider the reduction in the operational carbon aspects of water supply to the property, but he stated we know that any water efficiency that impacts hot water use in the home has a tenfold benefit in terms of carbon, so work is taking place with the energy sector. WRSE cannot take credit for the carbon reductions achieved by water companies on the hot water side but could potentially show it within the public value benefit calculation that we will do for long-term investment. He **challenged** “could SES usefully include cross-sector collaborative thinking for example with the energy sector given what we know about use of hot water in the home regards wider water efficiency agenda?”.
- SH asked a couple of questions:
- The SWOT analysis was clear and useful. The first **challenge** is “how are SES Water benchmarked against the routemaps being developed by other water companies and wider best practice and how can the ESP help to drive this forward?”

- KL then **challenged** “how will customer engagement’ be carried out in association with this plan?”
- HS reported in comparing against other water companies routemaps, it would be good to revisit this in 6 months once all companies have published theirs and with regards to how the ESP can help would be to get different viewpoints to help ensure the targets developed are the right ones. The Chair then re-stated the importance of benchmarking this work with wider practice. She mentioned for example work Heathrow Airport had done on this. She encouraged SES to take this into account so that the ESP and Board had a complete evidence base to assess the Routemap effectively. The Chair posed a few additional **challenges** she asked:
 - “what are the long-term v short-term wins the company are working towards regards accelerating their ambition on this agenda and getting ahead on what is coming next (and likely, soon) e.g., as per SJC and TB earlier challenges, regards measuring capital carbon and factoring that in?”
 - “How will SES’s Routemap interface with the need for the company to ensure that climate change adaptation is given adequate focus also regards a coherent approach to climate change?”
 - “How will this routemap be financed and delivered in practice? For example, how can we be assured that its delivery is given due focus in terms of resourcing on a practical level and at a strategic level, how can we be assured that this thus ensuring that it feeds into PR24 planning with due priority and any wider ESG strategy?”
- HS responded thoughtfully to the challenges from the ESP. She revealed that her personal vision for SES (which would need agreement from the Board) would be that the company address a lot of these challenges through elevating net zero to be one part of a broader sustainability strategy and function. This would allow SES to take a more holistic approach and tackle some of the concerns around trade-offs and SJC’s comment about ecosystem protection vs. climate protection. This sustainability function should be underpinned by something like the Six Capitals approach, which KL mentioned, and which is in use at some other water companies. It would SES to measure and report benefits across multiple areas including social, human, and environmental, as well as financial. If the company can embed Six Capitals as a central tenet of decision-making, then this would allow trade-offs to be made more consciously and transparently. This is particularly important for feeding in to the PR24 approach. Centralising a sustainability function would also help ensure SES is adequately resourced and financed with a sufficient level of management focus.

On some of the other more specific points HS stated:

- SES have not made any assumptions for growth in operational emissions out to 2030. Operational emissions are largely related to distribution input which we forecast as reducing out to 2030, even without any additional water efficiency activity as part of net zero. The general uplift in distribution input due to Covid and a change in working practices is something that may need to be thought about if it continues as a long-term shift. Capital or embodied carbon is a different matter. SES have barely begun to try and measure what the current capital carbon footprint is, or what the capital carbon from already planned projects is, but this will be a vital activity going forward.

- Offsetting and trading between companies is an ongoing discussion within the sector. It is questionable whether this will be any different from companies making use of existing global carbon markets.
- How will customer engagement happen? This is being developed currently and will most likely be through a combination of the voice of the customer work, and online customer forums (such as Talk on Water).
- Benchmarking – the company will need to be clear on what aspects of the Routemap are to be benchmarked – the approach/level of ambition/customer engagement/timeline/use of existing technology? SES would need to carefully decide who to benchmark with a focus on learning from others.

The Chair thanked HS for her presentation and explanations and the ESP for their insightful challenges.

5 Purpose

The Chair thanked KL for agreeing to provide her reflections on the Social Contract Summit:

Two key points to surface at SCS 2020 were:

- In terms of purposeful business, we are now in a situation of '**how rather than whether**'. Prof Colin Mayer, said: *"It is no longer about whether or why companies should have a clear notion of their purpose, but about what and how - what is meant by a corporate purpose and how should companies embed it in their business?"* In water, clear government, and regulatory expectations too.
- **The urgency of the situation and the need for rapid progress** - particularly on the environment. Two pertinent quotes from Lord Deben, CCC chair who chaired the first session of Summit: i) *"Climate change doesn't wait for us."* and ii) *"the perfect really is the enemy of the good"*.

4 key points on how to ENACT purpose:

1. The starting point is, it is essential to have a **clear, defined purpose statement** - to act as anchor for longer term strategy and to guide day to day activities.
2. Prominent **role of the board and shareholders**. My view is this includes:
 - **Agreeing a purpose.**
 - **Fostering a culture** where the company's purpose guides decision making and broader behaviour.
 - The Board might consider **formalising purpose** in some way - range of options – at least it should consider formal Board/Board committee oversight.
 - Finally, Board needs to be mindful of how **investor returns** sit in this context. Rachel Fletcher at Summit cautioned that *"if returns led to high dividend payments that look out of balance with what companies have actually delivered for customers, this could reduce public trust and raise questions about the industry's commitment to its social purpose"*.

Can the Board just go off and create a purpose on its own? No.

3. To be meaningful, purpose needs to be **co- created with stakeholders**. There is an obvious need for engagement with customers, community, employees, and the wider public. Consider:
 - Bring a **diversity** of voices to the discussion,
 - Tailor purpose and delivery of tangible outcomes to **local priorities** as well as issues of universal concern
 - Consider how to involve s/h groups in **delivery**.

4. Also, there are **regulatory constraints on purpose setting**. Regulation could be adapted if 'social contracts' between the companies and stakeholders are developed and trust built.

Colin Mayer: argued strongly that there is a need for **consistency and alignment** *"between what company purposes are and what the regulator sees as being the purposes of companies...so there's alignment between what companies obtain during a regulatory settlement and what their stated purpose is."*

There is some way to go to achieve that, clearly and alignment would **require action on both sides**.

Companies need to adopt and live a purpose **in keeping with regulatory interests**. Meanwhile regulators will need to work on what **purposeful regulation** looks like - less about rules and more about how to assist companies with identifying a purpose that is consistent with public interest and delivering it.

Challenges raised by KL:

- "How will SES Water make purposeful business decisions along the way? Use of a **Six Capitals** decision making framework or similar".
- Outcomes and impacts must be tangible. How will SES Water **measure progress**? Who will SES Water benchmark against?"
- "How do SES Water **communicate** what they are doing and to whom? Consider social media and speaking platforms as well as traditional communications."
- "Could SES Water **collaborate** with other service providers to deliver system-wide change?"

Initial thoughts about SES Water's purpose:

- Possible exciting cultural opportunity?
- Community aspect potentially key - consider system wide change in your area.
- What can SES Water lead on? Are there any causes SES Water would be comfortable to champion?

KT provided an update on the work around purpose. SES Water have continued to engage internally with colleagues from across the business about the role of purpose in business and what it could mean for SES Water. Have engaged with external organisations and conducted further research to identify how best to take the work forward and have recognised the need for further support and conducted a pitch process to appoint an external partner to work on developing our organisational purpose work.

KT continued to summarise how SES Water are defining success within the Company. KT asked the ESP for feedback on how they felt about the Company's definition of success and does it match your aspirations and expectations.

TK referenced the sustainable supply network and what can potentially be done to attract future talent into the business from the communities we serve.

TB said it was good to see the link back to the Edelman Trust Barometer, he **challenged** "does the Company have a baseline to measure how your purpose will develop over time in terms of trust?"

GH **challenged** the first statement regards 'purpose will sit at heart of strategy'. He said "there a question around does purpose actually drive the whole strategy? He challenged that SES Water should debate where purpose sits in the plan".

JP mentioned that SES Water will be carrying out a Board effectiveness review in the coming months and wondered what questions should be asked of the Board around trust and purpose and asked TB of any ideas how the Edelman Trust scoring is done elsewhere.

Action: The Chair said she would follow up on how best to engage in the Board effectiveness process on trust and purpose to see where the panel could input.

KT went on to summarise the Company's purpose framework and the proposed process and asked the ESP how SES Water can engage with the panel with this process.

TB suggested that a sub-group of the ESP be set up.

GH mentioned that the CSP will supporting this process the social purpose approach. On agreement of the panel the Chair said she would discuss which members of the panel could collaborate on this process.

6 **AOB**

The Chair mentioned that she would be providing feedback wider thoughts on the Company's Board Strategy Day to JP.

GH noted that this is likely to be his last attendance at the ESP meeting as SES Water are currently looking to recruit a new CSP Chair in preparation for the start of the PR24 process. GH went on to provide an update on the key areas the CSP will be focussing on at their next meeting: social purpose, review of performance commitments looking at C-Mex and the customer transformation programme and the early engagement with Ofwat on the PR24 process and role of the CSP in the process.

The Chair thanked everyone for their input and feedback.

7 **Formal meeting end and followed by private session with external ESP members.**

8 **Close**

This is accurate record of the minutes of the meeting.

Date: 28.4.21

Name: Alison Thompson

Signed:



Position: Chair of Environmental Scrutiny Panel for SES Water.