

# ENVIRONMENTAL SCRUTINY PANEL MINUTES

Tuesday 11 January 2022, Meeting via Microsoft Teams

## Attendees

<b>Chair:</b>	Alison Thompson (AT)	
<b>Secretariat:</b>	Lorraine Taylor (LT)	
<b>External Members:</b>	Trevor Bishop (TB)	Water Resources South East (WRSE)
	Steve Crabb (SC)	Independent Chair, SES Water's CSP
	Karma Loveday (KL)	Independent
	Cat Moncrieff (CM)	South East Rivers Trust
	Tom Perry (TP)	Environment Agency
	Sarah Jane Chimbwandira (SC)	Surrey Wildlife Trust
	Alice Laycock (AL)	CCWater
	Sarah Holloway (SH)	Independent
<b>SES Water:</b>	Tom Kelly (TK)	Wholesale Director
	Paul Kerr (PK)	Group Chief Financial Officer
	Alison Murphy (AM)	Water Strategy Manager
	Henrietta Stock (HS)	Energy and Carbon Manager
	Diana Evans (DE).	Compliance & Assurance Manager
	Sarah McLaughlin (SM)	Water Strategy Analyst
	Junji Omura (JO)	Shareholder representative

## 1 Private meeting

A private session with external ESP members took place prior to the start of the meeting.

## 2 Chair's Announcements

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 Andrew Jamieson (AJ), Surrey Wildlife Trust and Benoit Witchalls (BW), Independent. The Chair reported that after a two year term, BW will be stepping down and that she would be looking to recruit later in the year.

The Chair enquired if there were any Declarations of interest. SJC declared an interest in the report for Fetcham Springs which has prepared by the Wildlife Trust Consultancy. The Chair reported that her fixed term (maternity cover) Director role at the University of Cambridge Institute for Sustainability Leadership comes to an end at the end of this month.

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 Chair reported that this meeting is a good opportunity to start 2022 in the right spirit in term of thinking about our impact and tracking it through our Challenge Log and towards influence how we work closely with our partners.

The Chair welcomed PK to the meeting who she had invited in order for the ESP to take an early proactive view at the challenges, risks and opportunities at a macro level for the next price

review and business planning cycle at PR24.

### Minutes

The minutes from the previous meeting were ratified with no amendments needed.

### Action Log

The Chair summarised the four actions on the Action Log.

The Chair reported that the ESP are very keen to engage on the Bough Beech Transformation project. TK reported that he met with Sevenoaks District Council at the end of November, and they were very positive about the whole concept. One of the actions from the meeting is that we need for SESW to compile an outline masterplan which TK is progressing and proposing to share with the ESP prior to sharing with key stakeholders.

### Challenge Log

The Chair summarised the items on the Challenge Log. TK reported that he will be updated the Challenge Log following the meeting.

Challenge 1: TK reported that its been agreed that the next ESP meeting in April will be dedicated to biodiversity.

Challenge 2: TK reported that this will be reviewed at the end of the WRSE session.

Challenge 3: TK reported that SES still wants to be an early mover on the smart metering programme however is constrained with regards to supply chain challenges that are impacting the whole sector right now, specifically around semiconductors used in smart metering. The company's Net Zero plan also sets out in detail the intent to move forward off the back of a universal smart programme towards testing different approaches around tariffs that might help move this forward.

Challenge 4: TK reported that there has been a lot of changes on this over the course of the last few weeks and months and notably the Ofwat positioning paper moves certain aspects of this quite considerably, so more time is needed to review Ofwat's positioning paper. HS reported that she found Ofwat's positioning paper disappointing because its overall message is that our 2030 target is effectively too ambitious and the 2050 to align with the current governments 2050 is adequate. There is a piece around offsets and not unnecessarily purchasing offsets to achieve a target for 2030 when actually the money could be used to achieve genuine carbon reductions and there's a piece including embedded emission. It's important to focus on embedded emissions in the nearer term to best influence the supply chain. Their paper presents us with come challenges that we need to think about going into PR24 and for operational targets.

Challenges 5 and 6: TK reported that the items on the agenda will cover these areas.

## **3 CEO/SLT update**

### Review of 2021 and plans for 2022

TK reported that as the end of the financial year approaches and the challenges associated

with the pandemic and Brexit related issues are better understood, evidence suggests that reasonable progress with regards to the delivery of our performance commitments set out in the Business Plan is being made. Challenges remain however from the various waves of Covid-19 presented around supply chain disruptions with the economy first opening up and then being challenged with the ability to deliver and the knock on impact of costs of commodities and end products i.e., availability of concrete and steel through to semiconductors and the availability of HGV drivers.

The business has been focused on getting the new billing system called Aptumo over the line which was rolled out in September 2021 and now moving into a phase of embedment.

Wider challenges, in addition to those stated, affecting the sector as a whole, include the most recent one is the announcement of the investigation by the EA and Ofwat into the water and sewerage companies and the impact, if any, either directly or by association that might have on organisational operations. SES asserts it can demonstrate that from an environmental discharge perspective, it is compliant with consents and self-reporting 100% of our pollution incidents.

### Quarterly performance and forward look

TK provided an update on the quarterly performance against current performance commitments.

The performance against commitments, set out in the context of the company's 5 Pledges, is in a reasonable place. There are some areas in which the company has however fallen short on, namely: taste, odour and discolouration contacts. SES report to be working very hard to eliminate the illegal use that has driven that target to being missed and from a water softening perspective, the root cause is due to the residual close out of the Elmer scheme which is thought to be accountable for over 90% of that shortfall.

Voids continue to be a challenge the company and vulnerable support scheme is still falling short despite all of the work throughout the pandemic.

Significant reductions in leakage are being delivered however, the ongoing delays from the pandemic mean that resilience works are slightly behind by virtue of the programming of the work underway.

C-MeX and D-MeX continue to show improvements in performance which is positive.

From environmental standpoint, the upwards trend of consumption from a household perspective continues with increase of 2% in demand versus anticipated expectation. This is thought to be due to continued home working and the delayed progression of the universal metering programme.

PK reported that from a regulatory performance, in year one the regulatory penalty was about £1.1m which will impact the 2022/23 bill. However the company is below the £600/£700k level in terms of any potential penalty that is sitting with C-MeX, D-MeX, Voids and there is a potential reward for supply interruptions.

KL asked what the company's response to the Ofwat's reports showing that SES Water is one of the poorest performers on service and financial delivery and wondered if the company will be pushing back with a concerted response to challenge the findings or to put plans in place to improve elements that the SES Water agree with.

PK responded that SES were not happy with the positioning of the paper that on the service delivery report, which put SES were put with amongst the poor performing companies. He

reported that the company were further displeased with the financial resilience rating, positioning the company in the same bracket as Yorkshire and Southern Water so representations had been made to Ofwat. The report did not reflect that Moody's had recently stabilised their rating and later in the year moved it from negative to stable. Following SES recent Chair's discussion with Jonson Cox, Chair of Ofwat and IC's discussion with David Black, CEO of Ofwat, SES have promised a letter in January reflecting their position.

The Chair asked for the Panel to see the independent report on the Godstone case. TK agreed to circulate the report and will share with the panel a Board paper about our Environmental consent compliance.

#### PR24: key milestones and plans

At the Chair's request, PK provided a summary of the company's approach to PR24 including Board engagement and where the ESP and CSP will be involved in the process. PK confirmed that it will be at all stages sequenced over time.

A summary of the PR24 timeline was shared. The Board has requested that the earlier the engagement the better with external advisors is key. The Final Determination date is still up in the air in terms of whether we will be able to do an earlier submission.

Ofwat have suggested four goals for PR24: Increased focus on the long term, greater environmental and social value, improvements through efficiency and innovation and clearer understanding of customer and communities.

The key milestones for PR24 were explained starting with strategy indicating a strong direction of travel from Ofwat regards ensuring that long-term strategic goals are at the forefront of the discussions to lay the foundations for developing the next business plan. PK reported that SES will produce a direction statement and more importantly to set out the first five years of interventions within the 25-year overall strategic plan to ensure a well-articulated proposition.

The Chair reported that the Panel would need to understand early the format of independent 'reporting out' output would be required from the CSP/ESP prior to submission. She asserted that to best challenge and scrutinise the company it would be important to have early sight of materials respecting the wider commitments of Panel members. She said that she would be working closely with SC and wider CSP to ensure alignment and taking external soundings from other chairs and regulators about the reporting out needs for this next business plan cycle.

The Chair also registered an interest for SES to share more information with the Panel about the financial implications around the longer term framework regards trade offs and choices so that the company can reassure the Panel that regards environmental outcomes a 'no regrets' approach is being prioritised.

SH asked if the company could take the Panel through what's different about SES Water's approach to this forthcoming price review as opposed to PR19 in response specifically to the fact that this one is set against a 25 year trajectory with this five year package of interventions.

SC commented on that it's a good idea that the company is continuing to produce a Strategic Direction Statement even though they are not mandatory and asked if the company has given more thought to engaging with customers about their appetite for investments and desire to see the environmental change.

PK reported that expectations for ESP and CSP would include early engagement, participation in workshops, attendance at additional meetings and to be reviewing documents ahead of time. Too early to tell on financial question, but there will be some financial pressures and challenges.

Regarding the question on 'no regrets', we need to look at our core pathway and what we want to do over the 25 years.

With regards to SH question on what's different, *this* conversation is already different and there will be two performance commitments where we will be required to give long-term views on which are PCC and leakage which TK has already started having conversations with AM, HS and others about the 25 year plan.

What also will be different is to get a wider external view earlier from various economic consultants. In terms of engagement with customers, these long term strategic plan principles will need to be embedding in thinking.

AM mentioned the value and importance of the extent of independent challenges from the ESP and CSP in this regard.

#### **4 WRSE: Regional Plan & implications for SES**

TB and AM provided a summary of the WRSE National and Regional Plan and the implications for SES.

TB reported the regional plan has been set out by regulators at the expectation is that it pulls together the best available evidence from all the appropriate parties. It integrates both water company planning and plans. As if there were *no* boundaries between companies effectively, but also other sectors, and that the evidence and the output from that planning process should be directly fed into the strategy planning process for water resource management plans. Some crossed into drainage and wastewater management plans and ultimately feed through into PR24 and business planning. So, whilst it's a non-statutory and arguably a non-regulated activity it will be an important part of the picture for PR24 and beyond including enabling very open and candid discussions with regulators and other parties which companies aren't always able to do so with the statutory process in place which is of tremendous benefit.

The scale of the challenge in the south-east is greater than the scale of the challenge in all of the other four regions combined so WRSE has a vital role to play to consider the challenge for sustainable water supply and environmental management into the future with growing pressures on resources.

The National Infrastructure Commission have asked companies to increase their resilience to drought from somewhere between one in 100 years to one and 200 years (its currently to one in 500 years). This change borne from combined pressures of housing, population growth and climate change impacts means that the demand deficit across their region will lie at over *300 mega litres a day*.

On the environmental side, the need to recover the environment to sustainable levels is the biggest single driver for both reductions in abstraction and impacts on bills. Water companies should not plan in isolation as they could miss some strategic opportunities at regional levels.

WRSE are making good progress but still have more to do as they move towards their final draft plan. They are doing a lot of work with:

- Multi-sector organisations
- Developed a resilience framework
- Demand reduction
- Net Zero Carbon
- Public value
- Customers and vulnerability
- Collaboration with other planning areas i.e, DWMPs, flooding

AM summarised the implications of this work for SES Water. In the SES region, the focus is on a one in 500 year drought scenario with varying but significant reductions required in demand. Some of this are anticipated to be achieved from government led policies, others from reduction in demand from drought plan measures and wider demand management measures.

KL reported that this is brilliant work but also very terrifying. The plan to 2040 and the demand and the over 50% reliance on the deficit being met by demand management has to become a major priority.

AM reported that there is a lot of uncertainty and has less concern about our plan and the company have chosen the medium level of PCC being manageable.

TP reported that he is working with AM on the right scenarios for the environment on the abstraction from rivers to protect the demand levels.

CM asked how the environment ambition will be determined? She queried the determining factors option is picked and expressed interest in hearing more about the supply side solutions and when they will come into the plan. Will it be in the future when demand increases further, or could they come into the plan earlier? AM reported that this current consultation is based on the emerging plan and is based more on least cost and there will be some work to convert it to best value plan. For the environmental ambition, there are several levels, availability of water in different catchments has been considered.

The Chair gave thanks to TB and AM for the very useful presentation and reported that it would be an area that the Panel would like to delve a lot deeper into given the environmental impacts, level of delivery risk involved in converting this intend into reduce demand given current PCC levels are trending in the wrong direction. TB reported that this is a consultation and would welcome feedback from the Panel on the emerging plan.

## **5 ESG/Sustainability Strategy**

HS provided a summary on the companies ESG/Sustainability Strategy. There has been a fair amount of thinking about developing a sustainability strategy over recent months. Since issuing the slides prior to the meeting, TK HS, AT and SH have had a pre-meeting to discuss the development of a sustainability strategy and discussed what the process might look like and the need to focus on a few key strategic themes and areas. SES have since received Ofwat's positioning paper on Net Zero and it appears that Ofwat don't seem to be as supportive as the company would have necessarily liked.

HS reported that we are looking for views on materiality and where the ESP thinks we should be focusing on in terms of strategic themes. An interactive discussion took place. The next step would be to share thinking with the Board in February and report back to the ESP.

## **6 AOB**

### Update from Steve Crabb, Independent Chair of CSP

SC provided a summary from November's CSP meeting took a deep dive into what the company is doing to support customers in vulnerable circumstances in what is shaping up to be the hardest winter in living memory. Have seen a huge increase in energy prices, cut in universal credit of £20 per week, furlough ending has created a perfect storm. Also had some discussion about the work CCW are doing in the longer term to identify ways in which more customers can be put onto social tariffs and help to pay their water bills. At the CSP meeting later next month there will be a deep dive into debt and what the company is doing about debt

recovery. There will also be a discussion around C-MeX and Purpose.

AOB: Feedback from ESP on updated Biodiversity Action Plan

TK reported that we are very close to achieving our second biodiversity benchmark award at Fetcham Springs following the award we received for Elmer Treatment Works a year ago. He said that the next ESP meeting will be held at Elmer Treatment Works to visit the site to see what the teams have done. DE reported that she hoped that the site visit will bring biodiversity measures to life and would welcome further feedback from the Panel at that point on next steps.

Before closing the meeting the chair thanks BW for his contribution to the ESP and also extended thanks to HS for her collaboration, insights and passion for this area and wished her well in her new job. HS reported that she will be leaving the company on 8 February and will miss working with SES Water.

The next meeting is on the Tuesday 26 April 2022

**This is accurate record of the minutes of the meeting.**

**Date:** 26.4.22

**Name:** Alison Thompson

**Signed:**



**Chair of Environmental Scrutiny Panel for SES Water**