

SES Water
Minutes of a Meeting of the Board Meeting
Wednesday 22 July 2020

To be held at SES Water, 66-74 London Road, Redhill RH1 1LJ and via conference call commencing at 11am

Present:	J Pelczer	JP	(Chairman)
	M Legg	ML	
	D Shemmans	DS	
	J Woods	JW	
	S Kitajima	SK	
	K Oida	KO	
	I Cain	IC	
P Kerr	PK		
In attendance:	N Houlahan	NH	
	T Kelly	TK	
	K Reid	KR	(Item 51 only)
	A Thompson	AT	(Item 52 to 56 only)
	G Hanson	GH	(Item 52 to 56 only)
	D Lamb	DL	(Item 56 and 59 only)
	A Reynolds	AR	(Item 52 to 56 only)

2020 47. Declaration of Interests

JP reminded the Board to continue to update PK of any changes to the register of directors' interests. No further updates were noted to the current register as attached in the papers for this meeting.

2020 48. Minutes of Previous Meetings

The minutes of the meetings held on 2 June 2020 were agreed and signed by the Chairman, with summarised Board minutes approved for publication on website.

2020 49. Matters Arising

The matters arising were reviewed with the Board, with the following items of note:

Item 4: Social Mobility - IC noted the previous discussion with management and Justine Greening regarding the Company's involvement with Water UK's social mobility pledge, and the recent communications with her team.

Item 7 & 8: Public Interest Commitments - IC and TK updated on work being performed by the Company with regard to various Public Interest Commitments (PICs). TK noted the progress on various company initiatives on decarbonisation (such as the move to a green fleet, introduction of large-scale solar) that he was sharing with his sector colleagues.

Item 12: Health & Safety - NH referred the Board to the complementary paper updating on the external health and safety review action points, noting the progress on matters such as stop cards. NH noted the delay in advancement of certain actions due to Covid-19 related matters (such as an integrated occupation health and safety system), but noted

management's focus on such matters as would be discussed in the upcoming annual health and safety presentation.

Item 17: Ex-employee letter – IC and NH updated the Board of the most recent correspondence from the ex-employee JP noted that - as always - the Company would continue to follow the legal advice from Baker Morgan in this matter and the next steps with respect to the ex-employee.

2020 50. Board Committee Reports Committee

Report from the Nomination Committee

JP provided the report from the Nomination Committee, highlighting the following points:

- A request to IC for an updated view on senior management succession planning at the next committee meeting.
- The review of key appointments in progress in the Company, including the Chief Information Officer, Head of Production and Chief Customer Officer.

Report from the Governance Committee

ML provided a report from the Governance Committee, noting that:

- The Financing Committee would be reconstituted again in September to discuss various PR19 financing matters.
- The positive steps taken by management in the last year to address Ofwat's governance agenda, and the governance initiatives for 2020/21, including planning for the next Board effectiveness review, the use of internal audit in certain business areas and formulating a programme of external speakers at the Board.

ML also raised the issue of addressing Ofwat's requirement for a PR19 systems-based resilience approach across the business, citing TK's recent update to the Board and proposed plans to review a revised roadmap on company-wide risk and assurance.

2020 51. Health and Safety Annual Review

KR joined the meeting and provided the Board with a review of health and safety matters as detailed in his accompanying presentation, noting in particular:

- The recent lessons learnt at a company, industry and Water UK level with respect to safety matters.
- SESW's 2019/20 performance on accidents, with a low level of accidents continuing to be noted and performance on safety trending very similar to prior years.
- The focus and learning from the 3 high potential incidents in the year, in particular events at Woodmansterne and Bough Beech.
- The Water UK benchmarking and learnings for SESW.
- The review and discussion on health and safety matters with the Company's supply chain.
- SESW's health and safety maturity model (which DS noted he would consider for his Company), together with the related planned improvements over the AMP. JP questioned the timing of such action points, with IC noting that planning and implementation of certain key items (such as the health and safety management

system) would occur during the intervening period prior to the noted deadlines.

The Board thanks KR for his presentation, requesting that an update on the Year 1 progress within this 5-year maturity model be provided at the next Board meeting.

KR then left the meeting.

2020 52. Update from Alison Thompson, Chair of Environmental Scrutiny Panel (ESP)

AT, GH and AR joined the meeting and, after a brief introduction from each, AT proceeded to provide an update from her recently appointed role as the ESP Chair, noting in particular:

- Her background with the Company's Customer Scrutiny Panel (CSP), and the personal goals she had for the ESP in terms of support and challenge for the Company.
- The composition of the ESP, with the strength that would be garnered from the diversity of its membership.
- Key focal points arising from the ESP's initial meetings, and the close work with management already in areas such as targeted environmental goals across the AMP and beyond.
- The recent encouraging discussions AT had conducted with both the executive management and the non-executive directors. JW noted his recent discussion with AT, stating that he was strongly encouraged that the ESP would work with the Company on sustainability goals beyond the current AMP period.

The Board thanks AT for the work to date and encouraging start to the ESP's work with the Company.

2020 53. Update from Graham Hanson, Chair of the Customer Scrutiny Panel (CSP)

GH reviewed with the Board the work of the CSP in the last 12 months and its future focus, noting:

- The focus of the CSP on the draft and final determinations from Ofwat, and the support provided to the Company in making its final decision of acceptance of the Final Determination.
- GH highlighted the concerns the CSP shared with management and Ofwat on short-term affordability versus long-term resilience work, and that this mirrored many of his fellow scrutiny panel chairs' concerns across the sector.
- The future focus on the CSP moving into AMP 7 and beyond which, although yet to be formally defined by Ofwat, was directed towards the wider social purpose agenda being promoted by Ofwat.

The Board thanks GH and his CSP members for their continued support and challenge for the Company.

2020 54. Covid-19 update

IC noted to the Board that the Company was fully focused now on remobilisation plans and implementation, and that a slow but steady approach was being taken to increasing the level of front-line staff work.

IC said that this was consistent with the approach noted across the industry. IC commented that Ofwat were working with Water UK and

Frontier Economics to assess the longer-term impacts of Covid-19 across the sector.

TK proceeding to discuss remobilisation plans in further detail, particularly with respect to stepping up key operational related activity, such as metering and mains replacement, together with the focus on returning call centre staff to Redhill. TK also noted the care being taken with staff who continue to work from home, with the mental health of such employees being monitored and addressed as needed by management.

PK added that, from a regulatory standpoint, it is likely that Ofwat will consult in late summer on next steps in terms of a possible regulatory solution to the Covid-19 impacted PCs. In addition, as noted in the recent non-household consultation, it was expected that Ofwat would soon end the liquidity support measures being provided to business retailers.

2020 55. PR19 update

PK reviewed with the Board his accompanying PR19 update paper, noting that:

- A PR19 debrief/PR24 planning session has been scheduled for the Board in October. JP requested that an update on water resource management plans (particularly from a company versus regional perspective) also be provided at that meeting.
- The latest position on the appellant companies involved in the Competition and Market Authority process.
- Management's work on the PR14 reconciliation process. As detailed in the paper, PK noted the positive regulatory adjustments over PR14 based on the Company's strong performance on PCs overall (mainly from supply interruptions performance). PK also highlighted the negative adjustments arising from overall totex underspend in the AMP, although stated this would have been worse if it was not for the Year 5 focus on capital expenditure in the last year.
- Finally, PK noted the "PR19 bible" document attached in Boardpacks which summarised targets for the AMP by performance commitment and management's plan to achieve such targets.

2020 56. Customer Transformation Programme, including observations from Amanda Reynolds

DL joined the meeting and provided the Board with a brief update on the Customer Transformation Programme, following the recent deepdive on the subject with the Board. DL noted:

- The successful launch of the implementation of Aptumo in Australia.
- The focus on data migration and testing, with the importance of ensuring sufficient test cycles were run to ensure robustness of the migration process.
- The ongoing planning for the testing and training workstreams.
- The recent C-Mex shadow scores, which were provided in a separate update to the Board.

AR provided the Board with an update of the work she had been performing on the C-Mex programme, as detailed in the accompanying presentation. In particular, AR provided the Board with:

- A view on the service level benchmarking that SES Water is compared against.
- Her initial views of the strengths of the company from which to build an effective plan, including the depth of expertise, caring culture and stable asset base.
- The initial gaps to be addressed to improve the level of customer service across the business, including speeding up the customer contract turnaround time, a needed focus on high consumption complaints, an improvement in data quality and transparency matters and addressed the level of low digital contacts.
- An articulation of the C-Mex vision, with a view of customer strategy, key solution charters, perception hotspots and path to full customer immersion across the business.

AR concluded by reviewing the proposed short-term and medium-term governance structure to deliver the C-Mex plans.

The Board thanked AR for her presentation, noting that the focal points were as expected and emphasising the importance of the governance and management structure to retain the agility to adapt plans as needed.

AT, DL, GH and AR then left the meeting.

2020 57. Ordinary dividend

PK reviewed the accompanying paper on the proposed ordinary dividends with the Board.

On the 2 June meeting, the proposed dividend had been deferred in the light of Covid-19 issues, despite the Company's ability to pay at that point in time. The matter had now been revisited as documented in the paper.

PK noted that management considered that the Company still had the ability to pay given:

- The base level of appointed dividend reflects the return on regulatory equity allowed in the regulator's most recent price review.
- The company has adequate resources to fulfil its overall service commitments and its other financial obligations (including compliance with index-linked bonds).
- The overall level of service delivered to customers, compliance with statutory obligations and progress with the delivery of regulatory and other obligations.
- The Company's financial performance against regulatory assumptions and internal targets.

Management had therefore considered the additional Covid-19 matters as detailed in the paper, including:

- Performance to date on minimising impact to customer services and performance levels in the light of Covid-19, especially with respect to social tariff and payment holiday services.
- Consideration in the round on treatment of employees, including levels of furloughing
- Levels of financial headroom under Covid-19 stress tested scenarios (including ESH cash levels from a group perspective).
- Progress on supplementary aspects of financial resilience, such as Revolving Credit Facility extensions.

- Consideration of the status of water sector and overall utility industry in terms of maintenance of dividend levels.
- Equitable approach to shareholders given their own going support.

ML noted in particular that from his review of the aspects of financial resilience, the trends were supportive of payment of the dividend, with no significant deterioration on cash balances, and the level of social tariff and payment holiday applications starting to decrease. In addition, IC and PK confirmed that no external regulatory or political pressure had been noted by management with respect to the proposed dividend payments.

The other non-executive directors and shareholders agreed with the above position, and therefore the Board approved payment of an ordinary dividend of £3.008m from SES Water (or which £0.3m will be from the non-appointed business and £2.708m from the appointed business) in July 2020.

2020 58. Resilience Mains Update

TK reviewed his accompanying mains resilience paper with the Board, noting:

- The progress to close-out the AMP 6 main programme.
- The requested governance on the scheme costs required from the Board.
- The proposed AMP 7 costs ahead of future Board approval scheme.

TK provided a detailed update on the Blindley Heath to Outwood scheme, citing that various matters dealt with during the construction phase, including archaeological findings, weather events and the impact of the Covid-19 lockdown.

The Board approved the required expenditure amounts in the paper, which were noted as within budget and where the activity would conclude by 2021. The Board request that TK update the AMP 7 deliverables slide to reflect the latest glidepath to 100% resilience by 2025, and discuss at the September Board meeting the latest plans to achieve this PC, and potential penalties across the glidepath.

2020 59. Monthly Reports (May and June 2020)

DL rejoined the meeting.

IC, together with the executive team, summarised the key points from the recent June performance pack, including:

- Focus on PCs – TK confirmed that several of the underlying activities driving these commitments – such as metering, mains replacement – had recommenced, but there would be substantial ground to make up in 2020/21.
- Softening – TK reviewed with the Board the recent softening performance across the company, noting that the delay to softening at Elmer was driving the expected regulatory penalty in the year, but that recent results were positive for the site. IC stressed the priority of rigorously managing against our softening obligations and that the team will maintain a clear focus on delivery of our commitment whilst challenging ourselves to do so efficiently. TK also noted the work being performed with Advanced Minerals to remove the excess softening pellets being held at Elmer.

- Health and safety – TK provided an update on the cyclist fatality noted in the Board report, which had been brought to management’s attention from a member of public. TK noted that there were no reasons to note that the Company’s activities were connected to the fatality.
- Water resources – TK confirmed – following a question from the Board – that there were no current concerns on water resource levels.
- Financial results –PK expected the adverse impact on PAT due to Covid-19 to manifest in the Q1 forecast, which would be issued in early August. The lower volume of activity in the business retail charges and developer services activity was expected to drive this adverse variance.

JP inquired as to progress on the Priority Service Register (PSR) – DL confirmed that the PSR % was c3.4%, on course for the year-end target of 3.5%.

DS requested that management remain vigilant with respect to Cyber security attacks, given the sophistication and frequency if the recent attacked he has noted at his company.

2020 60. Any Other Business

JP noted the Board’s appreciation to the core team who worked on the recent Annual Performance Report – Tom Sommerfelt, Cat Holland, Emma Prince and Paul Kerr.

2020 61. Date of Next Meeting

Thursday 24 September 2020 at Redhill

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(Chairman)