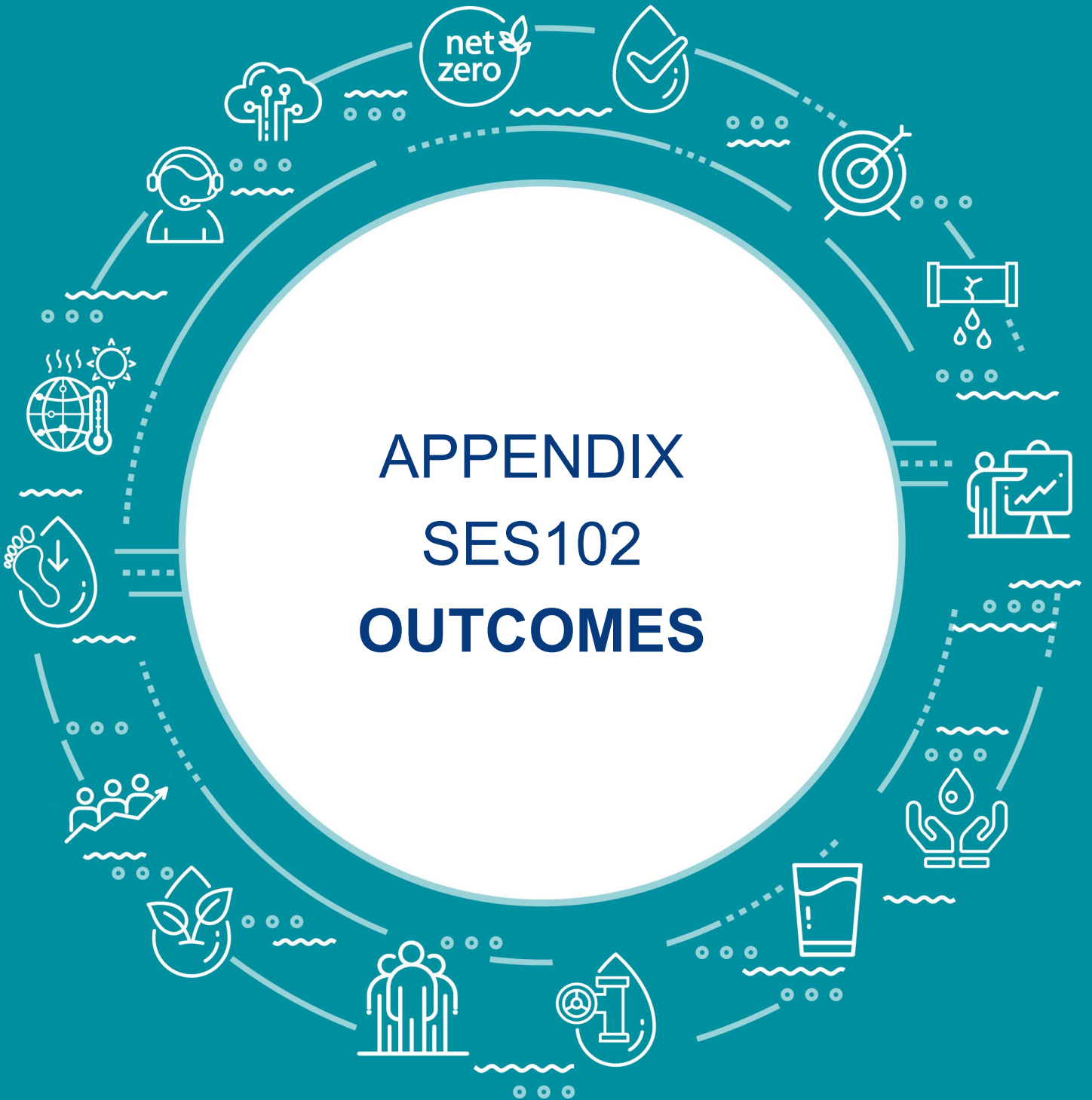


**APPENDIX  
SES102  
OUTCOMES**



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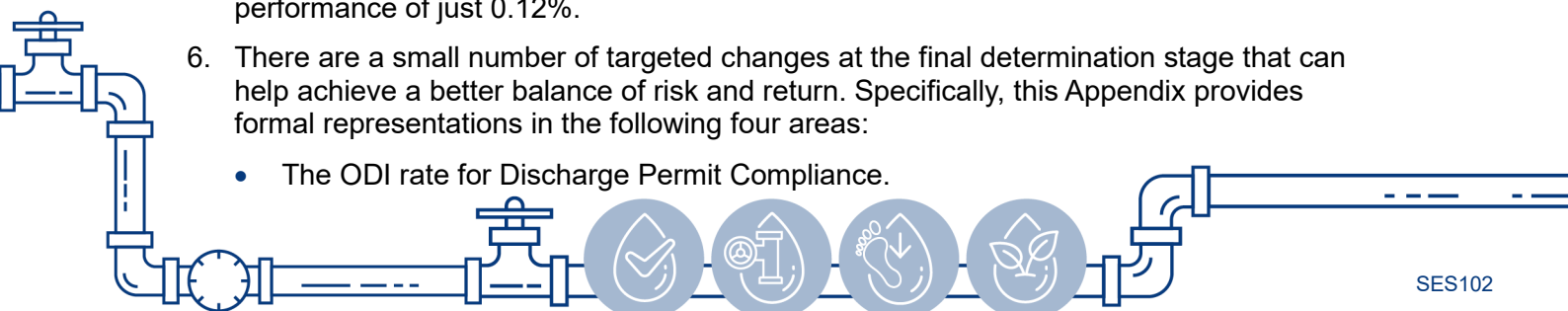
# APPENDIX SES102: OUTCOMES REPRESENTATION

In this appendix, we provide our response to Ofwat’s draft determination on our Outcomes and the balance of risk and return that arises from the proposed outcome delivery incentives and performance commitment levels for our business. We make specific representations regarding four performance commitments (PCs): Discharge Permit Compliance, Water Quality Contacts, Per Capita Consumption, and Business Demand.

Outside of our analysis across the confirmed common PCs, we also set out our views on the proposed additional PC – severe water supply interruptions.

## A. Introduction

1. This Appendix sets out our views on the balance of risk and return that has been established for Outcomes in Ofwat’s draft determination. We have approached this question by taking a holistic view on:
  - The performance commitment levels (PCLs) that have been set by Ofwat for us.
  - The output delivery incentive (ODI) rates which penalise and reward outturn performance relative to the PCL.
  - The wider caps, collars, and sharing mechanisms that Ofwat have established within the Outcomes regime.
2. We also consider wider decisions reached by Ofwat on our base cost allowance, enhancement cases, and price control deliverables (PCDs) which all influence the challenge associated with delivering a given level of performance. We discuss these issues in our Executive Summary and in a range of separate appendices.
3. This Appendix also supports Appendix SES112: RoRE which provides our overall assessment of the risk ranges implied by Ofwat’s draft determinations and the targeted changes that we consider are needed to bring the PR24 package into balance.
4. We recognise that risk and return related to the draft determination package of Outcomes needs to be considered in the round. We do not consider that a symmetric balance of risk and return can be expected for each individual PC area. However, as we set out in this Appendix, our assessment is that the overall balance of risk and return established by Ofwat’s draft determination presents a material and disproportionate downside risk for our business.
5. For example, we highlight in Section C that a single instance of non-compliance at any of our sites against the Discharge Permit Compliance PC results in a drop in performance of 25% and an ODI penalty of around **6.3% of RoRE**. In comparison, a single instance of non-compliance for a large WaSC like Anglian Water would result in a drop in performance of just 0.12%.
6. There are a small number of targeted changes at the final determination stage that can help achieve a better balance of risk and return. Specifically, this Appendix provides formal representations in the following four areas:
  - The ODI rate for Discharge Permit Compliance.



- The PCL and ODI rate for Water Quality Contacts.
  - The PCL for Per Capita Consumption as well our proposal to introduce a new mechanism to protect companies against the non-delivery of Government initiatives.
  - The PCL for Business Demand as well our proposal to reform the draft determination end of period PCL adjustment mechanism.
7. Outside of these four areas, we accept Ofwat's draft determination proposals on Outcomes.
8. The rest of this appendix is structured as follows:
- **Section B** provides our assessment of the overall balance of ODI risk and return for our business resulting from Ofwat's draft determination.
  - **Section C** sets out our representation on the ODI rate for the Discharge Permit Compliance PC.
  - **Section D** sets out our representation on the PCL and ODI rate Ofwat has proposed for Water Quality Contacts.
  - **Section E** sets out our representation on the PCL for Per Capita Consumption. It also sets out a proposal to protect companies from the disproportionate level of risk arising from the non-delivery of Government initiatives.
  - **Section F** sets out our representation on the PCL for Business Demand. It also sets out a proposal to reform the draft determination end of period PCL adjustment mechanism.
  - **Section G** summarises the impact of adopting our four representation areas on the overall balance of ODI risk and return.
  - **Section H** provides context for how our representation cases, and our Outcomes more generally, are reflected in the PR24 Data Tables that we have submitted in response to Ofwat's draft determination.
  - **Section I** details our consideration to Ofwat's proposed additional PC – severe water supply interruptions. Whilst a draft definition is developed by Ofwat, we provide our initial reflections as to how the PC may be structured to incentivise improved performance across the industry.



## B. Our view on the balance of risk and return

This section sets out our overall view of the balance of financial risk and return across the package of PCLs and ODI rates established by Ofwat in the draft determination. We first set out our views on PCLs and ODI rates, and then summarise their combined impact on the balance of risk and return.

### PCLs

9. Our PR24 Business Plan set out our commitment to deliver ambitious, well-evidenced, and justified performance targets for AMP8 and beyond. The Outcomes that we committed to delivering from a mix of both base and enhancement expenditure<sup>1</sup> are illustrated in Table 1 below. These commitments are shown alongside the PCLs that were set in Ofwat's draft determination.

**Table 1 Performance commitments outlined in our Business Plan compared to the draft determination**

£ outturn	Units	Source	2025/26	2026/27	2027/28	2028/29	2029/30
Where the draft determination PCL is set an even more stretching level relative to our PR24 Business Plan commitments.							
Water Quality Contacts	# contacts / 1000 people	Business Plan	0.60	0.60	0.60	0.60	0.60
		Ofwat DD	0.50	0.50	0.50	0.50	0.50
Per Capita Consumption	% reduction from 2019/20	Business Plan	-6.60%	-7.87%	-9.00%	-10.00%	-11.00%
		Ofwat DD	-6.40%	-8.40%	-10.30%	-12.00%	-13.50%
Business Demand	% reduction from 2019/20	Business Plan	-4.70%	-3.38%	-3.96%	-4.55%	-5.14%
		Ofwat DD	-6.90%	-8.80%	-10.30%	-12.60%	-14.90%
Operational GHG Emissions	tonnes CO2e reduction	Business Plan	1,888	2,382	2,656	2,962	3,244
		Ofwat DD	1,888	2,382	2,656	2,962	3,786
Where the draft determination PCL is set at the stretching levels proposed in our PR24 Business Plan commitments.							
Leakage	% reduction from 2019/20	Business Plan	-15.48%	-18.25%	-21.03%	-23.81%	-26.59%
		Ofwat DD	-15.10%	-18.30%	-21.00%	-23.80%	-26.60%
Mains Repairs	# repairs / 1000 km of mains	Business Plan	58	57	56	55	54
		Ofwat DD	58	57	56	55	54
Serious Pollution Incidents.	# of incidents	Business Plan	0	0	0	0	0
		Ofwat DD	0	0	0	0	0
Discharge Permit Compliance	%	Business Plan	100%	100%	100%	100%	100%
		Ofwat DD	100%	100%	100%	100%	100%
Compliance Risk Index	Index score	Business Plan	0	0	0	0	0
		Ofwat DD	0	0	0	0	0
Where the draft determination PCL is set at a less stretching level relative to our PR24 Business Plan commitments.							
Water supply interruptions	Minutes per property	Business Plan	00:03:50	00:03:45	00:03:40	00:03:35	00:03:30
		Ofwat DD	00:05:00	00:05:00	00:05:00	00:05:00	00:05:00
Unplanned Outages	% of peak week production.	Business Plan	1.00%	1.00%	1.00%	1.00%	1.00%
		Ofwat DD	2.14%	2.14%	2.14%	2.14%	2.14%

<sup>1</sup> Our PR24 Business Plan also noted that the delivery of our performance commitment for Per Capita Consumption also rested on the external delivery of Government initiatives.

Biodiversity	Net change in biodiversity units / 1,000sq.km	Business Plan	0.00	0.00	0.00	2.06	3.01
		Ofwat DD	0.00	0.00	0.00	0.08	0.73

Source: SES Water (PR24 Business Plan) and Ofwat (draft determination)

10. As shown above, Ofwat's draft determination has aligned its PCLs with the commitments proposed in our PR24 Business Plan in five areas (Leakage, Mains Repairs, Serious Pollution Incidents, Discharge Permit Compliance, and Compliance Risk Index) and it has adopted less stretching targets in three areas (Water Supply Interruptions, Unplanned Outages, and Biodiversity).
11. Ofwat's draft determination has however challenged us to deliver a materially more stretching level of performance in four areas (Water Quality Contacts, Per capita Consumption, Business Demand, and Operational GHG Emissions), as discussed briefly in the below bullet points.
- We are already operating at an upper quartile performance level for **Water Quality Contacts**. Our PR24 Business Plan set out that we would deliver a performance of 0.6 contacts per 1,000 people which is a performance level that is less than half of the sector average. Ofwat's draft determination PCL of 0.5 contacts per 1,000 people represents a further stretching target beyond this level.
  - We set an ambitious target to reduce **Per Capita Consumption** by 11% relative to the 2019/20 baseline by the end of AMP8. This level of performance would set us on the right trajectory to meet the UK Government's interim Environmental Improvement Plan (EIP) targets on an annual basis.
  - Our PR24 Business Plan targeted a reduction in **Business Demand** of 5.1% by the end of AMP8 relative to 2019/20 levels. Our proposed level of reduction was consistent with the Government's interim and 2050 EIP targets. The PCL set in the draft determination requires us to deliver a demand reduction of 14.9% by the end of AMP8 – representing a near threefold increase in the level of ambition for AMP8.
  - We set an ambitious target to reduce our **Operational GHG Emissions** by 3,244 tonnes of CO<sub>2</sub>e by the end of AMP8. We proposed that this would all be delivered from base expenditure and did not request any additional funding for meeting this objective. Ofwat's draft determination set out that we should deliver a further reduction from base expenditure in the last year of the AMP.
12. While we recognise that Ofwat wishes to challenge companies to deliver continued performance improvements from base and enhancement expenditure over AMP8, we consider that these PCLs represent an implausible level of challenge for our business. In the case of Water Quality Contacts, and Business Demand, the PCLs set in Ofwat's draft determination represent a step-change in performance relative to our proposals.
13. We also note that the strengthening of the targets for Water Quality Contacts, Per Capita Consumption, and Business Demand have been made without the provision of any additional cost allowances. Indeed, in a number of cases, material cost challenges have been applied to both our base and enhancement expenditure allowances. A number of items included in our Business Plan as enhancement expenditure have also been challenged to be funded through base expenditure – all else equal, increasing the efficiency stretch of the determination.



## ODI rates

14. We recognise that Ofwat have adopted a top-down approach to calculate an appropriate ODI rate for each PC. If applied proportionately, we consider that this approach is sensible and provides a transparent calculation to the ODI penalties/rewards. In some specific (and limited) circumstances, this approach has not been able to account for some of our own unique situations.
15. In particular, the top-down approach results in a Discharge Permit Compliance penalty rate of **£0.6 million (2022/23 prices)** per percentage deviation against our compliance score target of 100%. As we have just four sites with a discharge permit, a failure at any one of these locations would result in an annual Discharge Permit Compliance performance level of 75%. As such, a discharge failure at a single site would result in a pre-tax penalty of **£13.9 million (2022/23 prices) per year**. We calculate that this is the equivalent to around **£19 per SES Water customer** or **6.3% of RoRE**.
16. The top-down approach also results in a Water Quality Contacts ODI rate of **£4.9 million (2022/23 prices)** per number of contacts per 1,000 people. This ODI rate would result in a penalty of approximately £7,000 per individual contact over our PCL target. This represents more than a six-fold increase relative to the ODI rate faced in AMP7.
17. We consider that Ofwat's draft determination penalty rates in both cases are disproportionate and expose our business to an unprecedented level of downside risk.<sup>2</sup> We have proposed a change to the ODI rate for Discharge Permit Compliance in Section C and to the ODI rate for Water Quality Contacts in Section D.

## ODI impact of delivering our PR24 Business Plan outcomes

18. The ODI penalties and rewards that we would incur from delivering the Outcomes proposed in our PR24 Business Plan, based on Ofwat's draft determination decisions, are illustrated in the Table below. This outlines that delivering on the Outcomes we proposed in our PR24 Business Plan would result in both ODI penalties and rewards across different PCs.

<sup>2</sup> We note that Ofwat have acknowledged this point in a message to WoCs on 20 August 2024.



**Table 2 ODI impact of delivering on our Business Plan performance levels**

Financial impact of PCLs and ODI rates	Total £m (2022/23)	Av. RoRE impact (%)
Water Supply Interruptions	0.59	0.05%
Leakage	0.08	0.01%
Per Capita Consumption	-0.80	-0.07%
Mains Repairs	0.00	0.00%
Unplanned Outages	2.54	0.23%
Operational GHG Emissions	-0.10	-0.01%
Water Quality Contacts	-2.47	-0.22%
Business Demand	-1.63	-0.14%
Biodiversity	0.71	0.06%
Serious Pollution Incidents	0.00	0.00%
Discharge Permit Compliance	0.00	0.00%
Compliance Risk Index	0.00	0.00%
<b>Total</b>	<b>-1.08</b>	<b>-0.09%</b>

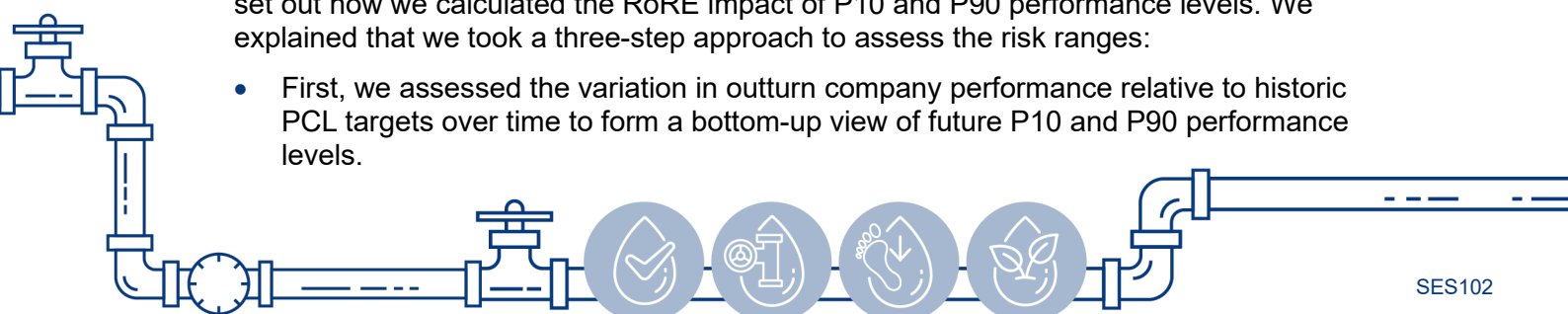
Source: SES Water analysis of PCLs and ODI rates

19. On an aggregate basis however, Table 2 shows that delivering on the level of stretching ambition set out in our PR24 Business Plan would result in a pre-tax ODI penalty of £1.08 million (2022/23 prices) across AMP8. This is the equivalent to a post-tax RoRE impact of -0.1%.
20. While we agree with the principle that companies should be challenged to deliver improved performance over time, we consider that a penalty of this magnitude for delivering the ambitious and stretching performance targets that we set out in our PR24 Business Plan, and which were supported by our customers, represents a disproportionate risk for our business.
21. We note that this aggregate penalty is primarily driven by Water Quality Contacts, Per Capita Consumption, and Business Demand. As noted above, Ofwat's draft determination set a PCL for these PCs at a level that is materially beyond the stretching commitments that we set for ourselves in our PR24 Business Plan.

## Balance of risk and return

22. We next look at the balance of risk and return associated with the PCLs and ODIs set in Ofwat's draft determination. In particular, we look at the ODI penalties and rewards that we would incur from delivering Outcomes at a P10 and P90 performance level.
23. Appendix SES069 – RoRE Ranges and RR30 Table Commentary – of our Business Plan set out how we calculated the RoRE impact of P10 and P90 performance levels. We explained that we took a three-step approach to assess the risk ranges:

- First, we assessed the variation in outturn company performance relative to historic PCL targets over time to form a bottom-up view of future P10 and P90 performance levels.





- Next, we adjusted these bottom-up performance levels in cases where the bottom-up estimate did not appear realistic or achievable.<sup>3</sup>
- Finally, we calculated the financial impact of P10 and P90 performance by comparing these scenarios to the set of indicative PCLs and ODI rates which were assumed at the time of writing our Business Plan.

24. This analysis produced an **ODI RoRE range of between -3.12% (at the P10 level) and +1.49% (at the P90 level)**. Our Business Plan noted that this risk profile was not symmetric and that companies faced a higher level of downside ODI risk. This downside skew was partly driven by the number of penalty-only ODI rates (e.g., Discharge Permit Compliance and Serious Pollution Incidents) as well as the higher level of downside risk for those PCs where performance is influenced by factors outside of company control (e.g., Per Capita Consumption, Business Demand).

25. To assess the balance of risk and return associated with Ofwat's draft determinations, we have replicated the P10/P90 analysis using the draft determination PCLs and ODI rates. The level of performance that we assumed in this analysis is illustrated in the Table 3 below.

**Table 3 Forecast PC performance at P90 and P10 levels**

£ outturn	Units	P90/P10	2025/26	2026/27	2027/28	2028/29	2029/30
Water Supply Interruptions	Minutes per property	P90	00:02:30	00:02:20	00:02:10	00:02:00	00:01:50
		P10	00:07:00	00:06:50	00:06:40	00:06:30	00:06:20
Leakage	% reduction from 2019/20	P90	-16.00%	-20.00%	-24.00%	-28.00%	-31.00%
		P10	-12.50%	-15.00%	-17.50%	-19.00%	-21.50%
Per Capita Consumption	% reduction from 2019/20	P90	-7.70%	-8.60%	-9.00%	-10.00%	-11.00%
		P10	1.50%	0.00%	-3.00%	-5.00%	-7.00%
Mains Repairs	# repairs / 1000 km of mains	P90	45.0	42.0	39.0	36.0	32.0
		P10	85.5	79.8	74.1	68.4	64.0
Unplanned Outages	% of peak week production.	P90	0.0%	0.0%	0.0%	0.0%	0.0%
		P10	2.1%	2.0%	1.9%	1.8%	1.7%
Operational GHG Emissions <sup>4</sup>	tonnes CO2e reduction	P90	1,888	1,548	1,832	2,178	2,504
		P10	1,888	2,382	2,656	2,962	3,786
Water Quality Contacts	# contacts / 1000 people	P90	0.36	0.36	0.36	0.36	0.36
		P10	1.00	1.00	1.00	1.00	1.00
Business Demand	% reduction from 2019/20	P90	-7.08%	-8.08%	-9.08%	-10.08%	-11.08%
		P10	0%	-1%	-2%	-3%	-4%
Biodiversity <sup>5</sup>	Net change in biodiversity	P90	0.00	0.00	0.00	0.00	0.00
		P10	0.00	0.00	0.76	2.81	3.80
Serious Pollution Incidents	# of incidents	P90	0	0	0	0	0
		P10	1	0	0	0	0
	%	P90	100%	100%	100%	100%	100%

<sup>3</sup> Our final view of performance at the P90 and P10 level for each PC is illustrated in Table A1 of Appendix 69 to our Business Plan.

<sup>4</sup> Note that our PR24 Business Plan did not forecast operational GHG emission performance at the P10 or P90 performance level using the PC definition that has been adopted by Ofwat's PR24 draft determination. These forecasts have been developed for the purpose of this analysis.

<sup>5</sup> Note that our PR24 Business Plan did not forecast Biodiversity performance at the P10 or P90 performance level. These forecasts have been developed for the purpose of this analysis.

Discharge Permit Compliance <sup>6</sup>		P10	75%	75%	75%	75%	75%
Compliance Risk Index	Index score	P90	0	0	0	0	0
		P10	2	1	2	1	2

Source: SES Water

26. The ODI penalties and rewards that we would incur from delivering the P10 and P90 performance outcomes that are shown in the Table above based on Ofwat's draft determination decisions is illustrated in the Table 4 below. It shows that Ofwat's draft determination results in a material downside skew in the balance of ODI risk and return.

**Table 4 ODI impact of delivering P10 and P90 performance levels**

Financial impact of PCLs and ODI rates	P10 Performance		P90 Performance	
	Total £m (2022/23)	Av. RoRE impact (%)	Total £m (2022/23)	Av. RoRE impact (%)
Water Supply Interruptions	-0.73	-0.07%	1.44	0.13%
Leakage	-4.12	-0.37%	3.03	0.27%
Per Capita Consumption	-4.86	-0.44%	-0.56	-0.05%
Mains Repairs	-2.09	-0.19%	1.95	0.18%
Unplanned Outages	0.65	0.06%	4.78	0.43%
Operational GHG Emissions	-0.70	-0.06%	0.00	0.00%
Water Quality Contacts	-12.36	-1.12%	3.46	0.31%
Business demand	-2.24	-0.20%	-0.38	-0.03%
Biodiversity	-0.14	-0.01%	1.10	0.10%
Serious Pollution Incidents	-1.41	-0.14%	0.00	0.00%
Discharge Permit Compliance	-69.53	-6.29%	0.00	0.00%
Compliance risk index	-1.21	-0.11%	0.00	0.00%
<b>Total (pre RoRE aggregate sharing mechanism)</b>	<b>-98.74</b>	<b>-8.93%</b>	<b>14.81</b>	<b>1.33%</b>
<b>Total (post RoRE aggregate sharing mechanism)</b>		<b>-5.56%</b>		<b>1.33%</b>

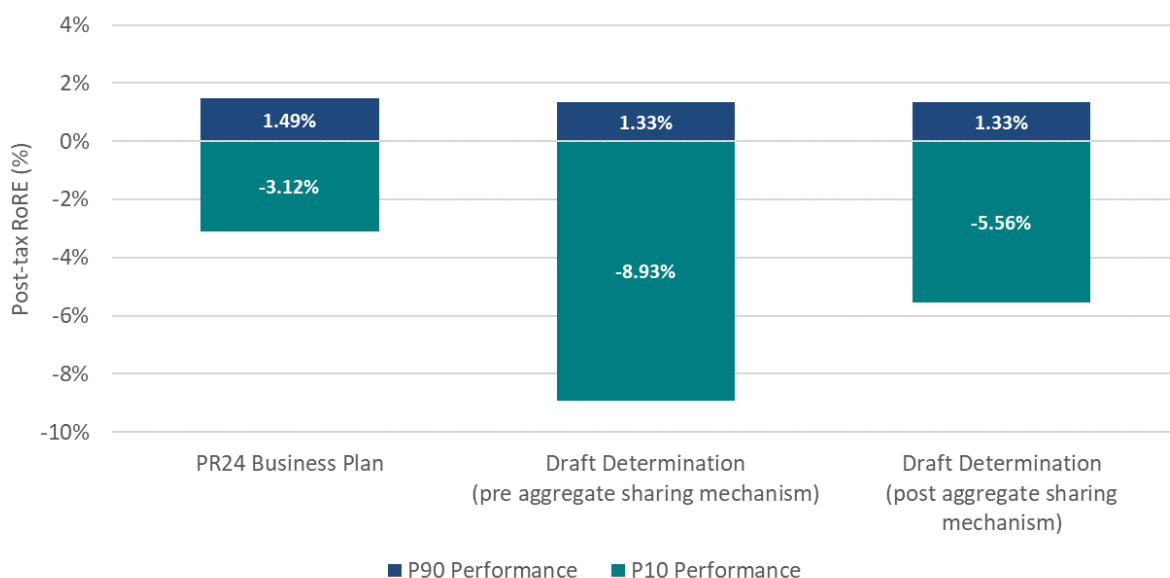
Source: SES Water analysis of PCLs and ODI rates

27. Table 4 shows that Ofwat's draft determination has materially increased our level of ODI downside risk. The draft determination would result in pre-tax penalties of just under £100 million (2022/23 prices) over AMP8 at the P10 performance level while pre-tax rewards of £14.8 million (2022/23 prices) over AMP9 would be received at the P90 performance level. In RoRE terms, P10 performance equates to a -5.56% impact while P90 performance equates to a +1.33% impact.

<sup>6</sup> We note that our PR24 Business Plan assumed that P10 performance equated to a single instance of non-compliance. At the time, we modelled this as a drop in performance of 20% given that we have five discharge permits. However, as the PC definition relates to performance at each of our sites and given that we have just four sites where discharge permits apply, a single failure would more accurately result in a drop in performance of 25%. We have therefore adjusted our P10 performance level to equate to a Discharge Permit Compliance level of 75% in each year of the AMP.

- 28. We note that the level of downside risk is driven primarily by Discharge Permit Compliance, Water Quality Contacts, Per Capita Consumption, and Business Demand. In particular, delivery of our P10 performance forecast for Discharge Permit Compliance (equivalent to just one site failure per year) would result in a pre-tax penalty of £13.9 million per annum and a pre-tax penalty of £69.5 million (2022/23 prices) over AMP8. This is equivalent to 6.3% RoRE.
- 29. Similarly, delivery of P10 performance for Water Quality Contacts (1.0 contacts per 1,000 people) which is below the PCL that has been set for other companies would result in a penalty of £12.4 million (2022/23 prices) over AMP8. This is equivalent to around 1.12% RoRE.
- 30. Figure 1, below, shows that the net impact of Ofwat’s draft determination on Outcomes is that our P90 ODI upside has reduced from +1.49% to +1.33% RoRE while our P10 ODI downside has increased from -3.12% to -5.56% RoRE from what we assumed in our PR24 Business Plan.

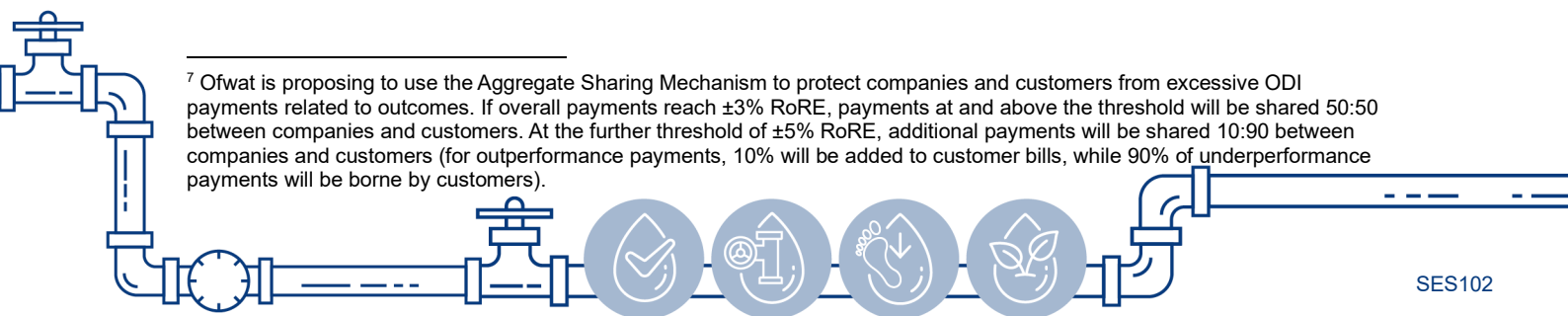
**Figure 1 Comparison of ODI impact on RoRE based on the PCLs and ODIs assumed in the PR24 Business Plan and what has been set in the draft determination**



Source: SES Water analysis

- 31. As Figure 1 above illustrates, the downside risk for our business would be even higher without the application of Ofwat’s aggregated sharing mechanism.<sup>7</sup>
- 32. Prior to the application of this aggregated sharing mechanism our assessment of the P10 performance levels would imply a -8.93% RoRE reduction: a financial penalty that far exceeds Ofwat’s base allowed equity return of 4.80% for PR24. This cannot be considered a balanced package of risk and return and as a consequence we conclude that a series of changes are needed in Ofwat’s final determinations to bring the outcomes package back into balance.

<sup>7</sup> Ofwat is proposing to use the Aggregate Sharing Mechanism to protect companies and customers from excessive ODI payments related to outcomes. If overall payments reach ±3% RoRE, payments at and above the threshold will be shared 50:50 between companies and customers. At the further threshold of ±5% RoRE, additional payments will be shared 10:90 between companies and customers (for outperformance payments, 10% will be added to customer bills, while 90% of underperformance payments will be borne by customers).



## C. Representation 1 – Discharge Permit Compliance

This section sets out our representation on the draft determination ODI rate for Discharge Permit Compliance. We show why the ODI rate set in the draft determination is set at a disproportionately high level for our business and how it could result in extremely high penalties for a single instance of non-compliance relative to all other companies.

We finally provide an alternative ODI rate that mirrors a sector approach whilst better reflecting the circumstances of water only companies.

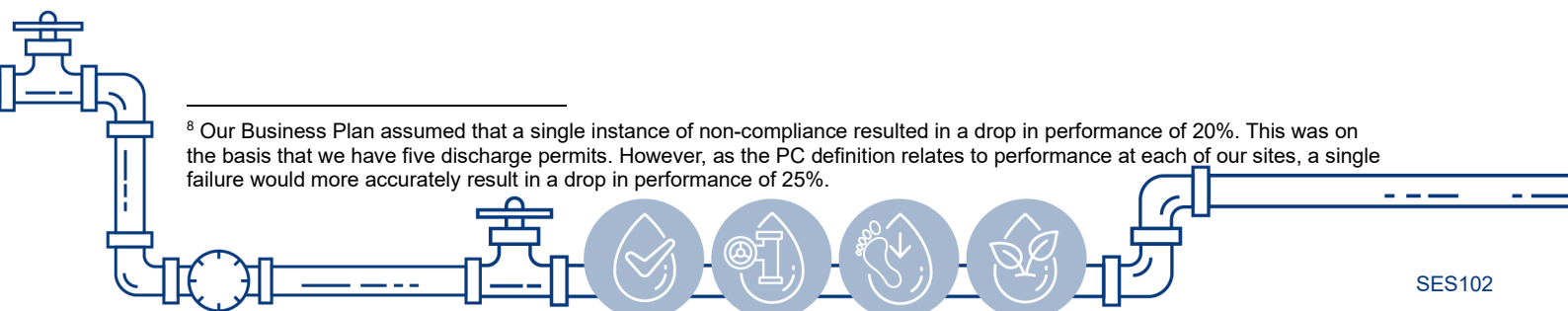
### Introduction

33. The Discharge Permit Compliance PC is designed to incentivise water companies to meet their discharge permits, thereby helping to protect the environment. We strongly support Ofwat's role in incentivising the sector to improve of the status of waterbodies into which companies may discharge.
34. The PC definition is reported as the performance of wastewater treatment works (to treat and dispose of sewage) and water treatment works (for the water supply service) in line with our numeric discharge permit conditions. The discharge permit compliance metric is reported as the number of failing sites and not the number of failing discharges.
35. We have been 100% compliant across our discharge permits in AMP7 to date, and we forecast to continue this strong performance level throughout AMP8. This performance level will be maintained by base expenditure. As such, we strongly support a PCL which targets no failing sites over AMP8.
36. In the rest of this section, we set out why we believe that our draft determination ODI rate for Discharge Permit Compliance has been set at an inappropriately high level as follows:
  - We first describe the discharge permits that are relevant for this PC.
  - We then outline the financial impact of instances of non-compliance against this PC.
  - Finally, we present our proposal for an alternative ODI rate for Discharge Permit Compliance.

### Our discharge permits

37. We have just four sites which are relevant to this PC, as outlined in Table 5. This represents the lowest number of discharge permits held by any water only company (WoC) or by any water and sewage (WaSC) company.
38. The small number of permits held by our business mean that any instance of non-compliance has a disproportionate impact on our performance against the Discharge Permit Compliance PC. A single instance of non-compliance at any of our sites results in a drop in performance of 25%<sup>8</sup>. A single instance of non-compliance for a large WaSC like Anglian Water would result in a drop in performance of just 0.12%. We anticipated

<sup>8</sup> Our Business Plan assumed that a single instance of non-compliance resulted in a drop in performance of 20%. This was on the basis that we have five discharge permits. However, as the PC definition relates to performance at each of our sites, a single failure would more accurately result in a drop in performance of 25%.



there may be a disproportionate effect on our business when responding to Ofwat's consultation concerning the proposed expansion of this PC to WoCs.<sup>9</sup>

**Table 5 Details of our discharge permits**

Site	Detail of discharge permit
Bough Beech WTW	We service several properties in the vicinity of our Water Treatment Works – including the site itself – with a wastewater treatment plant to maintain the security of water quality. The treatment plant processes the wastewater and returns non-polluting effluent to the environment. The treatment plant is routinely monitored, serviced and maintained.
Cheam WTW	We have two discharges in place at our Cheam Water Treatment Works associated with effluent from the water treatment process.
Godstone WTW	This permit relates to our operational activity at Godstone Water Treatment Works and the discharge associated of wash water (arising from our softening of water) to a lagoon site. There is no ability, through permit or otherwise, to discharge to any ditch, stream or watercourse.
Hackbridge	This discharge relates to an artificial recharge scheme, and links to our water abstraction licence for the Hackbridge Group. The Hackbridge Group licence provides a condition we can exercise to abstract and discharge raw water during winter, recharging the aquifer through the proceeding season and thereby temporarily increasing our licenced abstraction volume for public water supply. This licence condition and discharge consent are not routinely exercised.

Source: SES Water

39. For clarity, we have five discharge permits across four sites. The PC definition makes an assessment of compliance against the number of sites, however, the PR24 data tables required data input on the number of permits. We have therefore updated Table OUT4 (line OUT4.87) to reflect the number of sites so that there is alignment with the PC definition. Our analysis presented in this section reflects four sites.

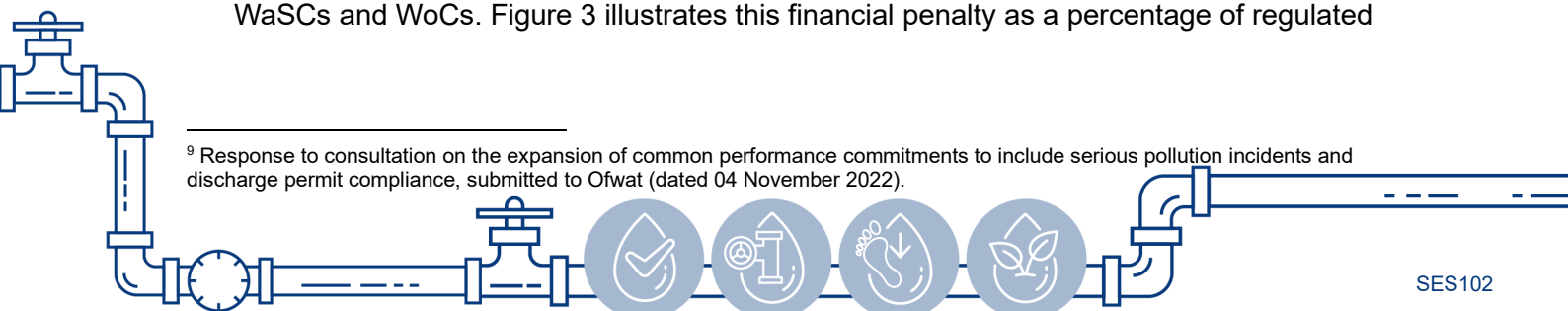
## Financial impact of the ODI rate for Discharge Permit Compliance

40. As noted above, a single failure at any of our sites would result in a drop in performance of 25%. As Ofwat's draft determination set our ODI rate for this PC at -£0.6 million per percentage deviation against target, a single failure at any of our sites would result in a pre-tax penalty of £13.9 million (2022/23 prices) per annum.

41. This high penalty rate is driven by the approach taken to calibrate the ODI rate based on % deviations from the PCL target level. This approach has resulted in extremely high penalties for some WoCs, which have a lower number of sites with discharge permits. This has particularly impacted on our business given that we have the lowest number of sites across any WoC or WaSC. We note that Ofwat have acknowledged this point in a message to WoCs companies on 20 August 2024.

42. The Figures below provide a sector comparison to demonstrate the imbalance across water and sewage companies (WaSCs) and WoCs. Figure 2 compares the ODI penalty rate that would be incurred in response to a single instance of non-compliance across all WaSCs and WoCs. Figure 3 illustrates this financial penalty as a percentage of regulated

<sup>9</sup> Response to consultation on the expansion of common performance commitments to include serious pollution incidents and discharge permit compliance, submitted to Ofwat (dated 04 November 2022).



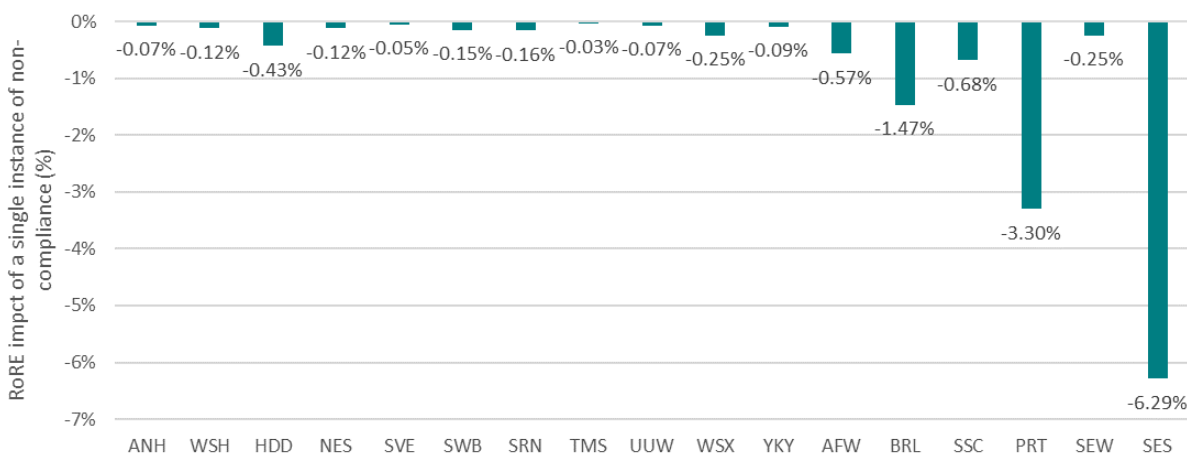
equity. The Figures show that Ofwat’s proposed ODI rate for us presents an outlier level of financial risk, even amongst WoCs.

**Figure 2 Comparison of ODI penalty rates across companies<sup>10</sup>**



Source: SES Water, adopted from Portsmouth Water to reflect altered performance level

**Figure 3 Comparison of penalty per permit expressed as a percentage of regulated equity<sup>11</sup>**



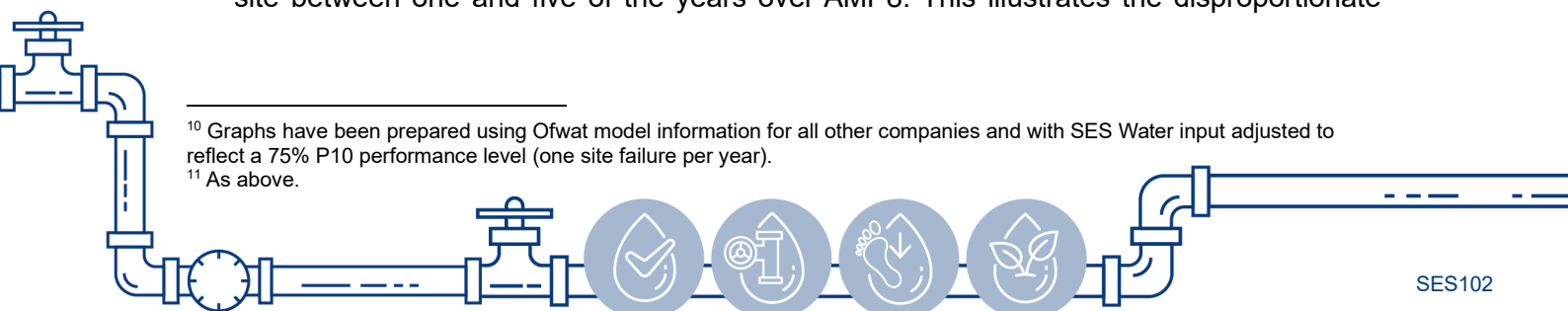
Source: SES Water, adopted from Portsmouth Water to reflect altered performance level

43. The financial impact of a single instance of non-compliance results in a disproportionate level of downside risk for our business. Our PR24 Business Plan set out that performance at a P10 level equated to one site failing for each year of AMP8. Based on the draft determination ODI rate, performance at this level would result in an aggregate pre-tax penalty of £69.53 million. As our PCL targets 100% compliance across each year of the AMP, this is a downside only risk and there is no equivalent upside.

44. The figure below shows the potential ODI penalty we would face from a failure at a single site between one and five of the years over AMP8. This illustrates the disproportionate

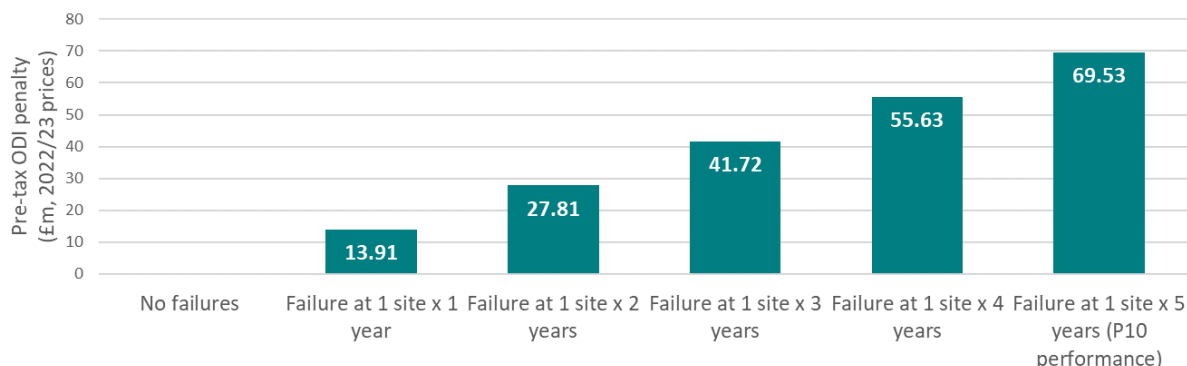
<sup>10</sup> Graphs have been prepared using Ofwat model information for all other companies and with SES Water input adjusted to reflect a 75% P10 performance level (one site failure per year).

<sup>11</sup> As above.



penalty we face at performance levels that are materially above what we assessed the P10 performance rate to be in our Business Plan.

**Figure 4 Implied pre-tax penalty from different performance levels over AMP8**



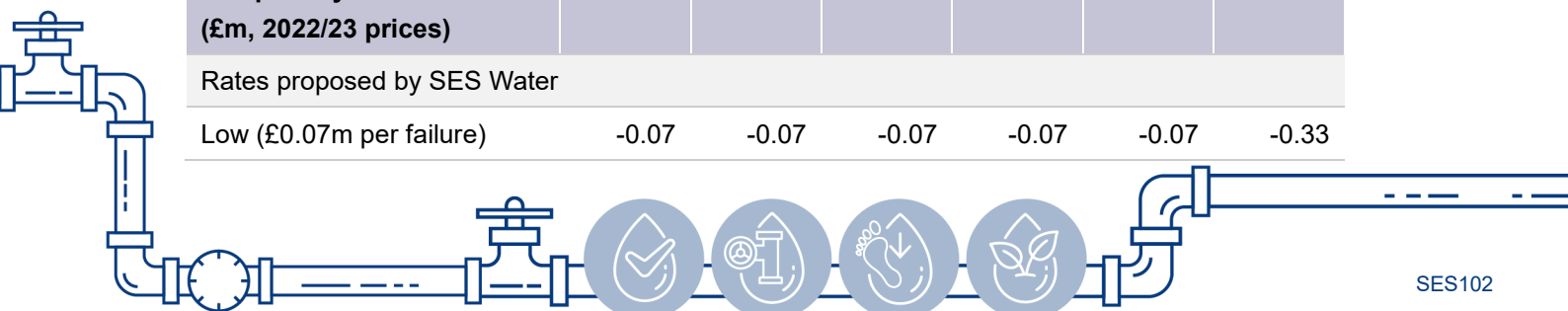
Source: SES Water analysis

### Proposed remedy and alternative ODI rate

45. Discussions with Ofwat have highlighted a willingness to review and develop the ODI rate associated with this PC so that there is equitable fairness across the industry.
46. We would take this opportunity to reiterate we do not have any concerns with Discharge Permit Compliance being a PC, or that the PCL set by Ofwat which already aligns with our submission. However, we believe there is an opportunity to develop this ODI so that it mirrors a more normalised approach across the industry as a whole – reflecting a post-tax RoRE in the region of 0.03% to 0.15% per site failure for all WoCs. These proposed rates are consistent with the effective penalty rates faced by WaSCs within the draft determination, as illustrated in Figure 3.
47. We note that this proposed penalty rate is below an example level included in Ofwat’s general response to water companies on 20 August 2024. This example outlined companies being penalised at a rate equivalent to 0.5% RoRE per site failure. As shown in Figure 3, this downside is still materially above the RoRE penalty that WaSCs face as a result of an instance of non-compliance. As such, we consider that our proposed penalty range of between 0.03% to 0.15% of post-tax RoRE remains appropriate for WoCs.
48. Based on our expected evolution of regulated equity over the next AMP, we calculate that a post-tax RoRE impact of 0.03% to 0.15% equates to a pre-tax penalty of between £0.07 million and £0.33 million (2022/23 prices) per site failure. The impact of these rates based on a P10 performance level of one failure per year are shown in the tables below. Table 6 shows the pre-tax financial impact of a P10 performance level under the ODI rates that we are proposing in this representation.

**Table 6 Pre-tax financial impact of P10 performance level (one site failure per year) under our proposed ODI rates**

ODI penalty rate (£m, 2022/23 prices)	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Rates proposed by SES Water						
Low (£0.07m per failure)	-0.07	-0.07	-0.07	-0.07	-0.07	-0.33



Mid (£0.20m per failure)	-0.20	-0.20	-0.20	-0.20	-0.20	-1.00
High (£0.33m per failure)	-0.33	-0.33	-0.33	-0.33	-0.33	-1.66
Ofwat's proposed draft determination rate						
-£0.56m per % deviation	-13.91	-13.91	-13.91	-13.91	-13.91	-69.53

Source: SES Water analysis

49. As shown in the Table above, adopting the rates proposed in this Appendix would result in performance at the P10 level (one failure per year) equating to a total pre-tax penalty of between £0.33 million and £1.66 million (2022/23 prices). Table 7 shows the post-tax RoRE impact of a P10 performance level under the ODI rates that we are proposing in this representation.

**Table 7 Post-tax RoRE impact of P10 performance level (one site failure per year) under our proposed ODI rates**

ODI penalty rate (% of RoRE)	2025/26	2026/27	2027/28	2028/29	2029/30	Av.
Rates proposed by SES Water						
Low (£0.06639m per failure)	-0.03%	-0.03%	-0.03%	-0.03%	-0.03%	-0.03%
Mid (£0.19914m per failure)	-0.09%	-0.09%	-0.09%	-0.09%	-0.09%	-0.09%
High (£0.33189m per failure)	-0.15%	-0.15%	-0.15%	-0.15%	-0.15%	-0.15%
Our draft determination rate						
-£0.5560m per % deviation	-6.70%	-6.43%	-6.24%	-6.10%	-5.96%	-6.29%

Source: SES Water analysis

50. We consider that these penalties provide a fairer balance between WoCs and WaSCs in terms of the financial liabilities associated with failures against this PC.





## D. Representation 2 – Water Quality Contacts

In this section, we present representations on the PCL and ODI rate set in the draft determination for Water Quality Contacts. In particular, we show that Ofwat's draft determination PCL and ODI rate is inappropriate in the context of our operational circumstances and current performance.

### Introduction

51. The Water Quality Contacts PC is designed to incentivise water companies to measure the number of water quality contacts from customers relating to taste, odour, and appearance, and consequently, to improve the quality of water to customers and reduce the number of contacts received. The PC is reported as the number of times the company is contacted by consumers due to the taste and odour of drinking water or because the drinking water is not clear, reported per 1,000 population.

52. Water quality is one of our top priorities and we want to continue being a top performer in the industry. However, Ofwat's draft determination PCL for Water Quality Contacts is set at a rate of 0.5 per annum while the ODI rate is set at  $\pm$ £4.9442 million (2022/23 prices). We consider that both the PCL and ODI rates have been set at disproportionately stretching levels which materially increases our downside risk.<sup>12</sup>

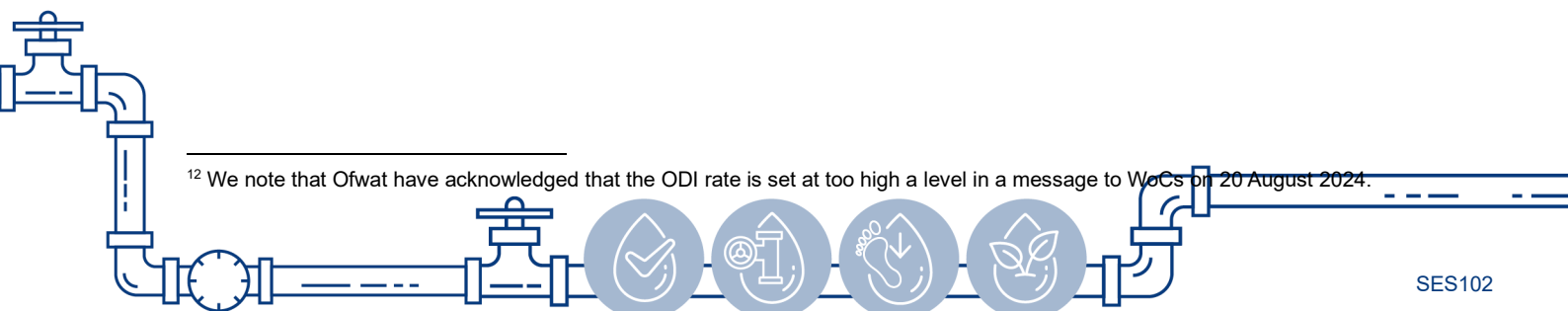
53. We set out our views on both matters in the remainder of this section which will be structured as follows:

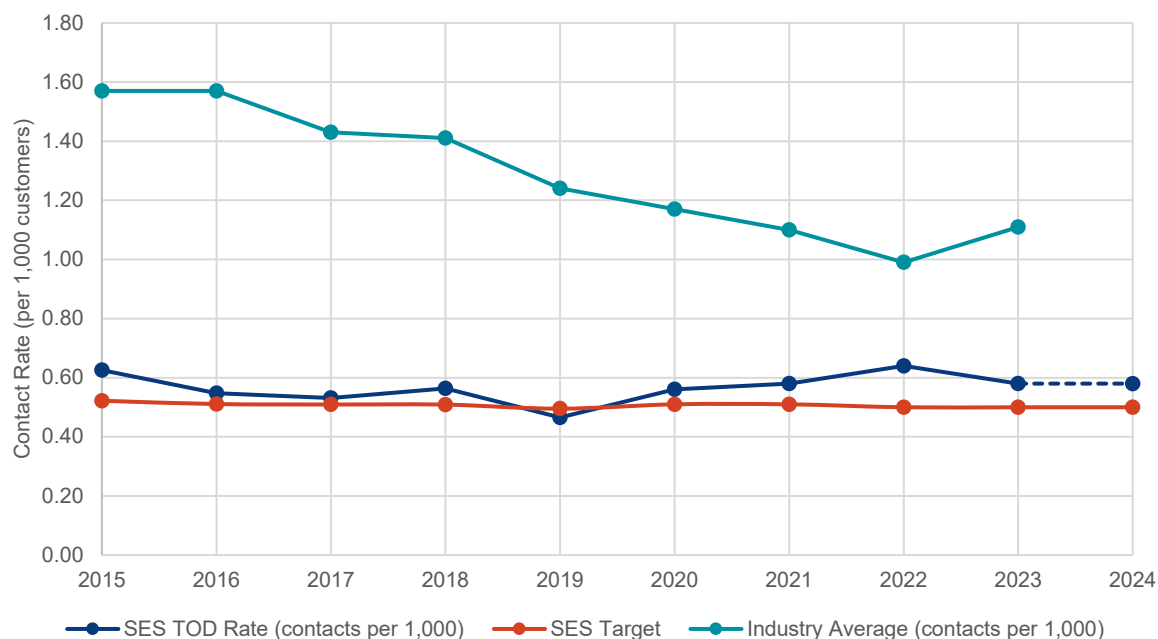
- We first set out the outcomes that we have already been delivering on Water Quality Contacts.
- We then outline the financial impact of Ofwat's draft determination PCL and ODI rate on our business.
- We then propose an alternative PCL and ODI rate.
- Finally, we show the financial impact of adopting both of our proposed PCL and ODI rates.

### Our performance to date

54. We are one of the strongest industry performers on Water Quality Contacts and we have consistently delivered outcomes that are materially better than industry average. Our performance against this PC over the first four years of AMP7 are 0.56, 0.58, 0.64 and 0.58. Figure 5 below illustrates our historic performance alongside our expected outturn performance in 2024/25 relative to industry average across other WoCs and WaSCs.

<sup>12</sup> We note that Ofwat have acknowledged that the ODI rate is set at too high a level in a message to WoCs on 20 August 2024.



**Figure 5 Indicative performance in Water Quality Contacts in 2024/25**

Source: SES Water analysis

55. While we are proud of the Outcomes that we are delivering against this metric, we acknowledge that we are currently failing to meet the AMP7 target of 0.5 and are therefore incurring ODI penalties. The target of 0.5 contacts per 1,000 people was first established in PR14 and was maintained in AMP7.
56. We consider that our outturn performance has not reached this target due to two external factors which have emerged since the PCL of 0.5 was first established:
- Due to changes in regulatory requirements, introduced in 2022, we are now capturing contacts relating to water quality through a greater number of channels, including social media. Reducing barriers for our consumers to contact us will increase the number of contacts that are recorded against this PC even for a constant level of performance on taste, odour, and appearance.
  - We also introduced a new billing and contact management system in late 2021, which went live in spring 2022. This has enabled us to better identify contacts which may partly relate to taste, odour and appearance. For these contacts, water quality tends to not be the main reason for the customer contacting us. These improvements again increase the number of contacts that are recorded against this PC even for a constant level of performance on taste, odour, and appearance.
57. We estimated that the two factors outlined above resulted in a step-change in our performance against this metric. We estimate that the combined impact of both factors led to an increase of approximately 0.1 customer contacts per 1,000 customers.
58. The PCL of 0.6 which was proposed in our PR24 Business Plan reflects both of these factors. In effect, it was calibrated based on the target of 0.5 Water Quality Contacts which was established in PR14 but uplifted by 0.1 to account for the two new factors outlined above. As such, we consider that 0.6 Water Quality Contacts reflects the level of performance that we have been funded to deliver.
59. We continue to consider that a target of 0.6 Water Quality Contacts reflects a stretching – and upper quartile – level of performance throughout AMP8. We note that this level of performance is funded entirely from base expenditure and that we have not requested –

or received – enhancement funding to reduce the number of contacts (in either PR19 or PR24).

## Financial impact of the draft determination PCL and ODI rate

60. As noted above, Ofwat’s draft determination set a PCL of 0.5 consumer contacts per 1,000 population over AMP8 while the ODI rate was set at  $\pm£4.9442$  (2022/23 prices). The adaptation of this stretching target alongside a greater than six-fold increase in the per-contact penalty from AMP7 represents a disproportionate increase in downside risk for our business.

61. Table 8 below illustrates the ODI penalties that we would incur based on Ofwat’s draft determination PCL and ODI rate under different outturn performance scenarios. It shows that we face a material downside risk at the P10 performance level relative to P90 performance.

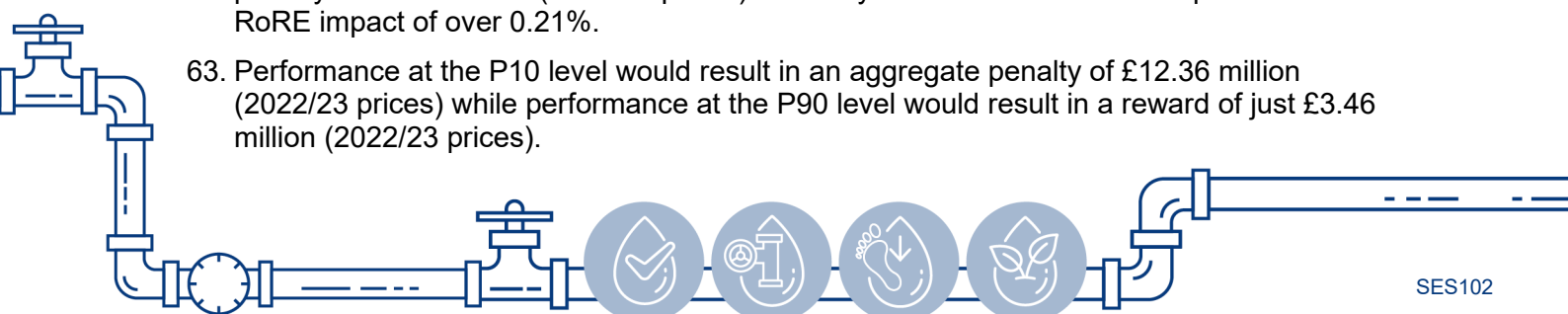
**Table 8 Financial impact of the draft determination PCL and ODI rates for Water Quality Contacts**

Water Quality Contacts	2025/26	2026/27	2027/28	2028/29	2029/30
Ofwat DD PCL (contacts per 1,000)	0.5	0.5	0.5	0.5	0.5
Ofwat DD ODI (£m / contacts per 1,000)	$\pm£4.94$	$\pm£4.94$	$\pm£4.94$	$\pm£4.94$	$\pm£4.94$
PR24 Business Plan: performance commitment					
SES performance forecast (contact per 1000)	0.60	0.60	0.60	0.60	0.60
Implied ODI payment (pre-tax £m, 2022/23)	-0.49	-0.49	-0.49	-0.49	-0.49
Implied RoRE impact (%)	-0.24%	-0.23%	-0.22%	-0.22%	-0.21%
PR24 Business Plan: P10 performance					
SES performance forecast (contact per 1000)	1.00	1.00	1.00	1.00	1.00
Implied ODI payment (pre-tax £m, 2022/23)	-2.47	-2.47	-2.47	-2.47	-2.47
Implied RoRE impact (%)	-1.19%	-1.14%	-1.11%	-1.08%	-1.06%
PR24 Business Plan: P90 performance					
SES performance forecast (contact per 1000)	0.36	0.36	0.36	0.36	0.36
Implied ODI payment (pre-tax £m, 2022/23)	0.69	0.69	0.69	0.69	0.69
Implied RoRE impact (%)	0.33%	0.32%	0.31%	0.30%	0.30%

Source: SES Water analysis

62. Table 8 shows that Ofwat’s draft determination PCL and ODI rate results in us facing a disproportionate level of downside risk for this PC over AMP8. Delivery of an upper quartile level of performance (0.6 Water Quality Contacts) would result in a pre-tax penalty of £0.49 million (2022/23 prices) in each year of the AMP. This is equivalent to a RoRE impact of over 0.21%.

63. Performance at the P10 level would result in an aggregate penalty of £12.36 million (2022/23 prices) while performance at the P90 level would result in a reward of just £3.46 million (2022/23 prices).

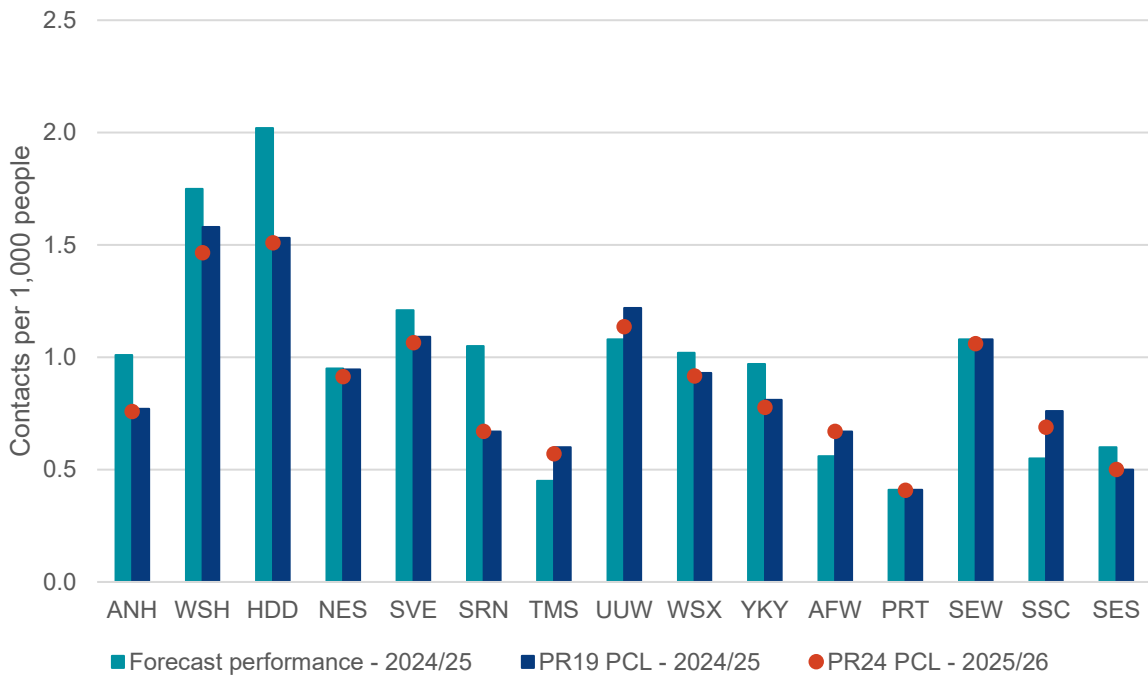


64. This degree of financial downside risk is driven by a combination of Ofwat’s draft determination PCL and ODI rate. We discuss each in turn below.

**The draft determination PCL for Water Quality Contacts**

65. Figure 6 below compares expected outturn performance in 2024/25 against the PCL exit point for AMP7 and the PCL starting point for AMP8. The Figure shows that we may face material financial penalties for delivering a level of performance that is materially better than the PCL which have been set for other water companies. For example, the PCL for some companies have been set at a level that exceeds even our assumed P10 performance level.

**Figure 6 – Comparison of PR19 exit performance and PCL to PR24 starting PCL**



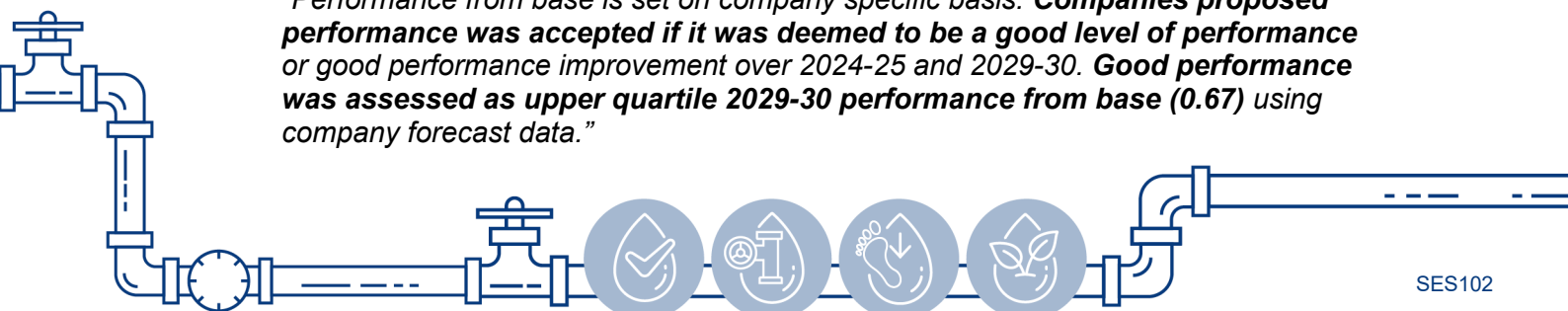
Source: SES Water analysis

66. Figure 6 also suggests that the starting point for AMP8 PCLs that have been set in the draft determination typically align with the exit point for PCLs set in PR19. As noted in the section above, we consider this approach inappropriate for SES Water as the PR19 PCL (which was first set in PR14) does not account for the external step changes which have increased outturn Water Quality Contacts relative to target.

67. Similarly, this results in some companies entering AMP8 with a non-stretching PCL relative to their current performance. As such, some companies may not face any penalties in AMP8 for maintaining their outturn level of performance, even though that performance is materially worse than the performance we are delivering.

68. In Ofwat’s summary explanation of its approach to setting these PCLs it states the following (emphasis added):

*“Performance from base is set on company specific basis. **Companies proposed performance was accepted if it was deemed to be a good level of performance or good performance improvement over 2024-25 and 2029-30. Good performance was assessed as upper quartile 2029-30 performance from base (0.67) using company forecast data.**”*



Further, it states:

*“If a good level of performance or improvement from base wasn't proposed then it was applied. This performance commitment is important to customers therefore deteriorating performance commitments are not acceptable.”*

69. We consider that Ofwat has not applied this logic correctly to SES Water on the basis that:

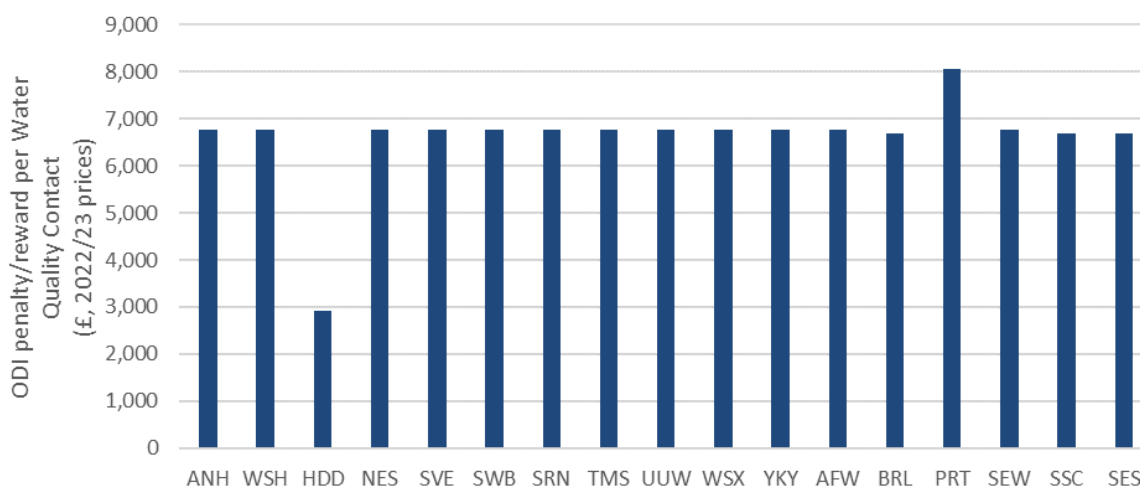
- (a) We proposed a good level of performance, in that it was within the upper quartile by 2029-30 (i.e. 0.6 vs 0.67),
- (b) We did not seek enhancement funding to achieve this level of performance, and hence,
- (c) In proposing a PCL of 0.6 from base, we met Ofwat’s criteria for this to be accepted.

**The draft determination ODI rate for Water Quality Contacts**

70. Ofwat’s draft determination has set the ODI rate at  $\pm£4.9442$  million per number of contacts per 1,000 people. This is the equivalent to a penalty/reward of approximately £7,000 (2022/23 prices) per relevant contact that is above or below our PCL. This represents more than a six-fold increase in the financial liability for this PC relative to the rate set for AMP7.

71. We note that this ODI rate is a result of the top-down approach developed by Ofwat. This approach results in most companies facing a symmetric ODI penalty / reward per individual contact, as illustrated in Figure 7 below.

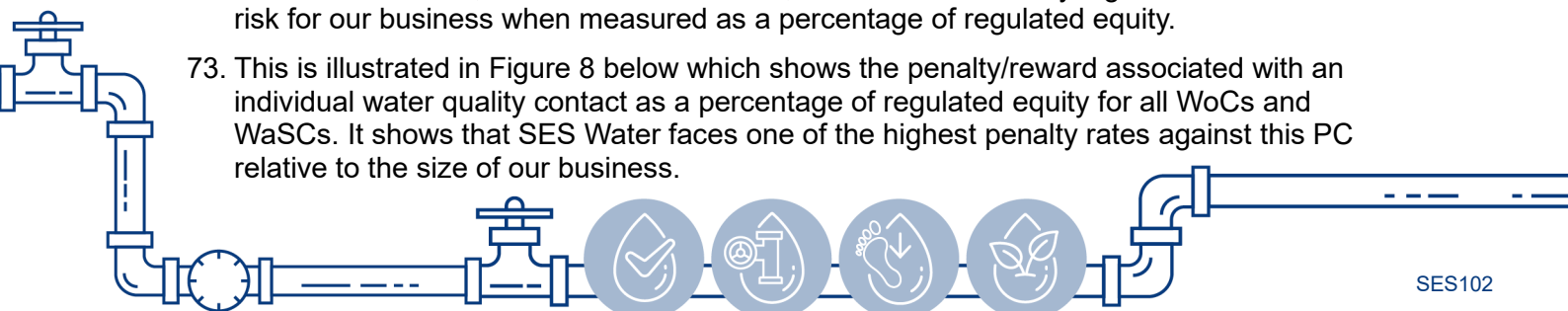
**Figure 7 – Implied ODI penalty/reward per relevant Water Quality Contact as per the draft determination**



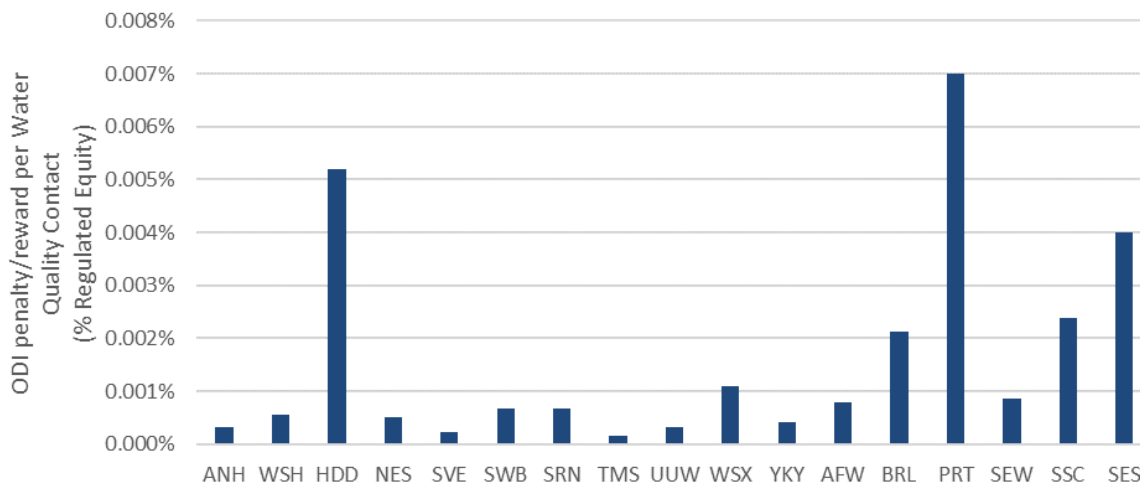
Source: SES Water analysis based on Ofwat’s PR24 DD ODI Rates model

72. We consider that this approach results in smaller companies facing disproportionately high ODI rates relative to larger companies. Setting the same penalty for us and for larger WoCs and WaSCs, such as Thames Water, results in a materially higher level of financial risk for our business when measured as a percentage of regulated equity.

73. This is illustrated in Figure 8 below which shows the penalty/reward associated with an individual water quality contact as a percentage of regulated equity for all WoCs and WaSCs. It shows that SES Water faces one of the highest penalty rates against this PC relative to the size of our business.



**Figure 8 – Implied RoRE penalty/reward per relevant Water Quality Contact as per the draft determination**



Source: SES Water analysis based on Ofwat’s PR24 DD ODI Rates model

74. We do not consider that the six-fold increase in the ODI rate for this PC has been justified. We also do not consider that the level of financial exposure faced by SES Water relative to almost all other companies is appropriate in the context of our ongoing upper quartile performance delivery.

**Proposed remedy and alternative PCL and ODI rate**

75. We provide separate representations on our proposed PCL and ODI rate below.

**Proposed remedy on the Water Quality Contacts PCL**

76. An appropriate PCL for AMP8 should recognise that for a given level of outturn water quality, we are capturing a greater number of contacts now relative to PR14. This increase is driven by improvements in the way that customers can contact us and in how we measure those contacts against this PC.

77. We consider that a PCL of 0.5 reflects a level of performance beyond that which we have been funded to deliver. The exit point in the PCL set for AMP7 does not reflect an efficient performance level.

78. Nevertheless, we want to continue achieving our upper quartile position and challenge ourselves to do better. We therefore propose a PCL of 0.58 customer contacts per 1,000 customers. This performance aligns with our outturn performance level in 2023/24 and continues to reflect upper quartile performance.

79. We emphasise that a PCL of 0.58 continues to represent a significant delivery challenge for us. For example, it is materially lower than our outturn performance of 0.64 in 2022 when we implemented new improvements to capture relevant customer contacts.

80. The financial impacts of adopting a PCL of 0.58 while retaining an ODI rate of ±£4.9442 million per number of contacts per 1,000 people is illustrated in Table 9 below



**Table 9 Financial impact of adopting a PCL of 0.58 for Water Quality Contacts**

Water Quality Contacts	2025/26	2026/27	2027/28	2028/29	2029/30
SES proposed PCL (contacts per 1,000)	0.58	0.58	0.58	0.58	0.58
Ofwat DD ODI (£m / contacts per 1,000)	±£4.94	±£4.94	±£4.94	±£4.94	±£4.94
PR24 Business Plan: performance commitment					
SES performance forecast (contact per 1000)	0.60	0.60	0.60	0.60	0.60
Implied ODI payment (pre-tax £m, 2022/23)	-0.10	-0.10	-0.10	-0.10	-0.10
Implied RoRE impact (%)	-0.05%	-0.05%	-0.04%	-0.04%	-0.04%
PR24 Business Plan: P10 performance level					
SES performance forecast (contact per 1000)	1.00	1.00	1.00	1.00	1.00
Implied ODI payment (pre-tax £m, 2022/23)	-2.08	-2.08	-2.08	-2.08	-2.08
Implied RoRE impact (%)	-1.00%	-0.96%	-0.93%	-0.91%	-0.89%
PR24 Business Plan: P90 performance level					
SES performance forecast (contact per 1000)	0.36	0.36	0.36	0.36	0.36
Implied ODI payment (pre-tax £m, 2022/23)	1.09	1.09	1.09	1.09	1.09
Implied RoRE impact (%)	0.52%	0.50%	0.49%	0.48%	0.47%

Source: SES Water analysis

81. Table 9 shows that setting a PCL of 0.58 helps reduce some of the downside risk facing our business from this PC. For example, the penalty that we would face from delivering a performance of 0.6 contacts per 1,000 people would fall from a pre-tax penalty of £2.47 million (2022/23 prices) to £0.49 million (2022/23 prices). This equates to an average RoRE impact of -0.05%.
82. At the P10 performance level, our downside risk would fall from a pre-tax penalty of £12.36 million (2022/23 prices) to £10.38 million. At the P90 performance level, our upside potential increases from £3.46 million (2022/23 prices) to £5.44 million (2022/23 prices).

### Proposed remedy on the Water Quality Contacts ODI rate

83. Based on our analysis presented in Figure 8, we consider that an ODI rate that is calibrated to 0.0005% RoRE per Water Quality Contact would reflect an equitable approach across the industry.
84. We note that Ofwat's draft determination has set ODI rates for many companies (including ANH, SVE, TMS, UUW, YKY) below this level. The draft determination ODI rate for almost all companies represented less than 0.001% of regulated equity.
85. We estimate that a penalty of 0.0005% of RoRE equates to a pre-tax ODI penalty/reward rate of approximately £1,100 per relevant individual contact. Based on the assumption that SES Water is responsible for a total population of 738,308 people<sup>13</sup>, a penalty of £1,100 per Water Quality Contact equates to an ODI rate of £0.812 million (2022/23

<sup>13</sup> For simplicity, we have aligned with the number set out in Ofwat's PR24 DD ODI Rates model.

prices). We note that this is marginally above the ODI rate that we have been facing over AMP7.

86. The financial impacts of adopting this ODI rate of £0.812 million (2022/23 prices), while retaining the proposed draft determination PCL of 0.5 across on different levels of outturn performance is captured in Table 10 the below.

**Table 10 Financial impact of adopting an ODI rate of £0.812 for Water Quality Contacts**

Water Quality Contacts	2025/26	2026/27	2027/28	2028/29	2029/30
Ofwat DD PCL (contacts per 1,000)	0.5	0.5	0.5	0.5	0.5
SES proposed ODI (£m / contacts per 1,000)	±£0.812	±£0.812	±£0.812	±£0.812	±£0.812
PR24 Business Plan: performance commitment					
SES performance forecast (contact per 1000)	0.60	0.60	0.60	0.60	0.60
Implied ODI payment (pre-tax £m, 2022/23)	-0.08	-0.08	-0.08	-0.08	-0.08
Implied RoRE impact (%)	-0.04%	-0.04%	-0.04%	-0.04%	-0.03%
PR24 Business Plan: P10 performance					
SES performance forecast (contact per 1000)	1.00	1.00	1.00	1.00	1.00
Implied ODI payment (pre-tax £m, 2022/23)	-0.41	-0.41	-0.41	-0.41	-0.41
Implied RoRE impact (%)	-0.20%	-0.19%	-0.18%	-0.18%	-0.17%
PR24 Business Plan: P90 performance					
SES performance forecast (contact per 1000)	0.36	0.36	0.36	0.36	0.36
Implied ODI payment (pre-tax £m, 2022/23)	0.11	0.11	0.11	0.11	0.11
Implied RoRE impact (%)	0.05%	0.05%	0.05%	0.05%	0.05%

Source: SES Water analysis

87. Table 10 shows that setting an ODI rate £0.812 million (2022/23 prices), while holding all else equal, helps reduce some of the downside risk facing our business from this PC. For example, the penalty that we will face from delivering our PR24 Business Plan performance commitment would fall from a pre-tax penalty of £2.47 million (2022/23 prices) to £0.41 million (2022/23 prices).

88. At the P10 performance level, our downside risk would fall from a pre-tax penalty of £12.36 million (2022/23 prices) to £2.03 million. At the P90 performance level, our upside potential falls from £3.46 million (2022/23 prices) to £0.57 million (2022/23 prices).

## Financial impact of adopting our proposed PCL and ODI rate

89. Table 11 illustrates the financial impacts of adopting both the PCL of 0.58 Water Quality Contacts across AMP8 and an ODI rate of £0.812 million (2022/23 prices) across on different levels of outturn performance.





**Table 11 Financial impact of adopting an ODI rate of £0.812 and a PCL of 0.58 for Water Quality Contacts**

Water Quality Contacts	2025/26	2026/27	2027/28	2028/29	2029/30
SES proposed PCL (contacts per 1,000)	0.58	0.58	0.58	0.58	0.58
SES proposed ODI (£m / contacts per 1,000)	±£0.812	±£0.812	±£0.812	±£0.812	±£0.812
PR24 Business Plan: performance commitment					
SES performance forecast (contact per 1000)	0.60	0.60	0.60	0.60	0.60
Implied ODI payment (pre-tax £m, 2022/23)	-0.02	-0.02	-0.02	-0.02	-0.02
Implied RoRE impact (%)	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%
PR24 Business Plan: P10 performance					
SES performance forecast (contact per 1000)	1.00	1.00	1.00	1.00	1.00
Implied ODI payment (pre-tax £m, 2022/23)	-0.34	-0.34	-0.34	-0.34	-0.34
Implied RoRE impact (%)	-0.16%	-0.16%	-0.15%	-0.15%	-0.15%
PR24 Business Plan: P90 performance					
SES performance forecast (contact per 1000)	0.36	0.36	0.36	0.36	0.36
Implied ODI payment (pre-tax £m, 2022/23)	0.18	0.18	0.18	0.18	0.18
Implied RoRE impact (%)	0.09%	0.08%	0.08%	0.08%	0.08%

Source: SES Water analysis

90. Table 11 shows that adopting our two proposals help develop a more symmetric balance of risk and return for this PC, in the context of the upper quartile level of performance that we have been delivering.
91. The penalty that we will face from delivering our PR24 Business Plan performance commitment would fall from a pre-tax penalty of £2.47 million (2022/23 prices) to £0.08 million (2022/23 prices).
92. At the P10 performance level, our downside risk would fall from a pre-tax penalty of £12.36 million (2022/23 prices) to £1.71 million. At the P90 performance level, our upside potential falls from £3.46 million (2022/23 prices) to £0.89 million (2022/23 prices).



## E. Representation 3 – Per Capita Consumption

In this section, we present a representation on the PCL for Per Capita Consumption. We show that the draft determination has set the PCL at a disproportionately stretching level using a specific planning level from our Water Resources Management Plan (WRMP)<sup>14</sup>.

We also present a representation on the introduction of a mechanism that can help protect companies from the risk of non-delivery by Government on initiatives that will impact on Per Capita Consumption.

### Introduction

93. The Per Capita Consumption PC is designed to incentivise companies to help customers reduce their consumption, thereby improving the long-term water resources supply-demand balance and reduce the need for future water abstraction.
94. The PC definition is reported as the percentage reduction of the three-year average of Per Capita Consumption in litres per person per day (l/p/d), from the company's 2019/20 baseline. The three-year average values are calculated from outturn annual average values for the reporting year and two preceding years.
95. Our PR24 Business Plan set out that we would deliver a stretching 11% reduction in Per Capita Consumption by the end of AMP8. This performance level, which reflects a material improvement from outturn, was calibrated to account for the variance we may reasonably expect to occur between normal and dry year planning. In contrast, Ofwat's draft determination has set a PCL which requires a reduction in Per Capita Consumption of 13.5% by 2029/30.
96. We understand that Ofwat's target is based on figures included the PR24 data tables which reflect 'normal year' annual average figures only. Normal year planning is based on an average year and does not take account of any variance in demand arising from dry weather. As we have seen in AMP7, dry weather has been experienced in 2020/21 and 2022/23 and, to an extent, in 2023/24. We consider that the adaptation of only the normal year figures within the draft determination introduces a disproportionate level of downside risk.
97. Our PR24 Business Plan also set out how our performance in this area would be delivered from a mix of base and enhancement expenditure, as well as from external initiatives that will be delivered by Government. This is the case for all companies forming part of the Water Resources South East (WRSE) regional group, where we have appropriately reflected external activities in company WRMPs and the regional plan. We therefore consider that a mechanism should be introduced which acknowledges the fact that the delivery of Government interventions is outside of our – and the WRSE group's – control.
98. The rest of this section is structured as follows:
  - We first outline our proposed PCL for AMP8.

<sup>14</sup> References to WRMP throughout the PR24 Business Plan and this document refer to WRMP24. Our WRMP24 is currently in 'revised draft' form and we received permission from Defra to publish it on 21 August 2024. We will make some presentational changes to our WRMP following discussion with the Environment Agency, specifically concerning how bulk exports are referenced, but no *material* changes will be undertaken as we prepare to publish our final WRMP in October 2024.



- We then propose a mechanism which will enable companies to be protected from the risk of non-delivery of incentives related to per capita consumption by Government.

## Our Proposed PCL for Per Capita Consumption

99. Our PR24 Business Plan proposed a PCL that would deliver a reduction of 11% in Per Capita Consumption by the end of AMP8. This level of performance will allow us to meet the Government’s interim Environmental Improvement Plan (EIP) targets on an annual basis.<sup>15</sup>

**Table 12 Proposed per capital consumption PCL in our PR24 Business Plan**

% reduction from the 2019/20 baseline, 3-year rolling basis	2025/26	2026/27	2027/28	2028/29	2029/30
Delivered from base expenditure	5.2%	5.6%	5.9%	6.1%	6.4%
Delivered from enhancement expenditure	1.0%	1.6%	2.2%	2.7%	3.2%
Delivered from Government initiatives	0.7%	0.7%	0.9%	1.1%	1.4%
<b>Total performance</b>	<b>6.6%</b>	<b>7.9%</b>	<b>9.0%</b>	<b>10.0%</b>	<b>11.0%</b>

Source: SES Water PR24 Business Plan

100. The performance outlined in the table above was calibrated to account for the variance that occurs across normal and dry years throughout a planning period. Dry years result in increased demand for water, particularly within an unmeasured customer base, therefore increasing Per Capita Consumption. The OUT4 data table accompanying our PR24 Business Plan submission illustrates that we expect Per Capita Consumption to be 9% higher in dry years relative to normal years.

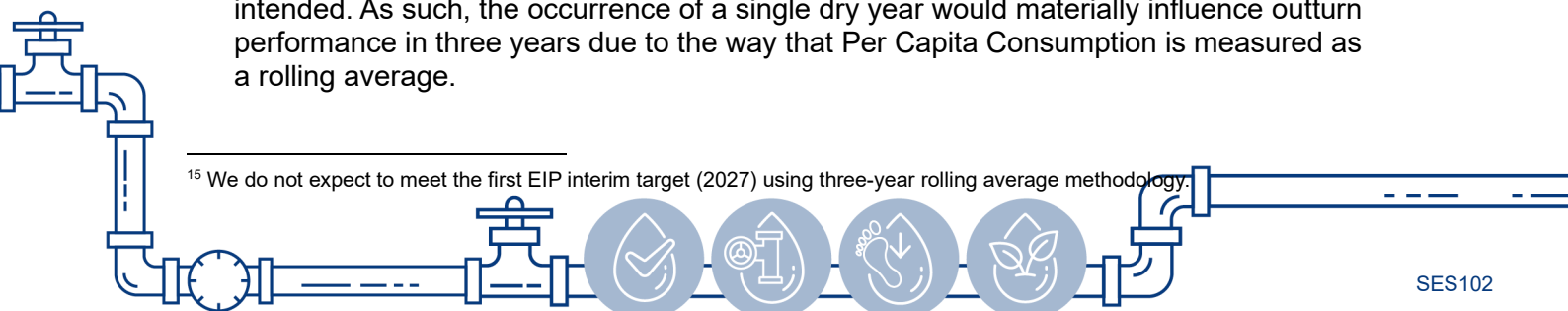
101. Our PCL was constructed using inputs from the interim EIP targets and our WRMP normal and dry year planning, together with our assessment of the AMP7 end of period Per Capita Consumption position. This is particularly important as we need to recalibrate our Per Capita Consumption PCL to account for the impacts of the Covid19 pandemic in AMP7.

102. Whilst the initial effects of the pandemic have now largely subsided, Covid19 caused an extreme change in water demand during lockdowns, whilst limiting our ability to carry out elements of our water efficiency programme and has continued to present a residual impact from changed lifestyles and flexible working patterns.

103. In contrast, Ofwat’s draft determination appears to have set this PCL on the level of performance that reflects the modelled WRMP normal year Per Capita Consumption only. This level of performance was inputted into the OUT1 and OUT4 data tables as required by the related Table guidance and definitions. However, this performance level does not reflect our proposed PCL (separately captured in Chapter 6 – Outcomes we will deliver – of our Business Plan submission).

104. We consider that Ofwat’s draft determination approach to set the PCL based on WRMP normal year Per Capita Consumption materially underestimates the impact of future dry years and does not allow the three-year rolling average mechanism to work as intended. As such, the occurrence of a single dry year would materially influence outturn performance in three years due to the way that Per Capita Consumption is measured as a rolling average.

<sup>15</sup> We do not expect to meet the first EIP interim target (2027) using three-year rolling average methodology.



105. We therefore propose that the PCL for Per Capita Consumption is set at the ambitious level proposed in our PR24 Business Plan, which more accurately reflects the variance we may reasonably experience from factors such as weather, but which maintains our essential focus on demand management activities. We illustrate the financial impact of adopting this PCL relative to different outturn performance forecast scenarios in Table 13 below.

**Table 13 Financial impact of adopting our proposed PCL for Per Capita Consumption**

Per capita consumption	2025/26	2026/27	2027/28	2028/29	2029/30
SES proposed PCL (% reduction)	6.6%	7.9%	9.0%	10.0%	11.0%
Owat DD ODI (£m / % reduction)	±£0.131	±£0.131	±£0.131	±£0.131	±£0.131
PR24 Business Plan: performance commitment					
SES performance forecast (% reduction)	6.6%	7.9%	9.0%	10.0%	11.0%
Implied ODI payment (pre-tax £m, 2022/23)	0.00	0.00	0.00	0.00	0.00
Implied RoRE impact (%)	0.00%	0.00%	0.00%	0.00%	0.00%
PR24 Business Plan: P10 performance					
SES performance forecast (% reduction)	-1.50%	0.00%	3.00%	5.00%	7.00%
Implied ODI payment (pre-tax £m, 2022/23)	-1.06	-1.03	-0.79	-0.65	-0.52
Implied RoRE impact (%)	-0.51%	-0.48%	-0.35%	-0.29%	-0.22%
PR24 Business Plan: P90 performance					
SES performance forecast (% reduction)	7.70%	8.60%	9.00%	10.00%	11.00%
Implied ODI payment (pre-tax £m, 2022/23)	0.14	0.10	0.00	0.00	0.00
Implied RoRE impact (%)	0.07%	0.04%	0.00%	0.00%	0.00%

Source: SES Water analysis

106. Table 13 illustrates that we will still retain a high degree of downside risk associated with this PC even if our Business Plan proposal is adopted. However, we consider that this proposed PCL reflects a fairer balance of risk and return for our business.

## Our proposal to account for the risk that Government initiatives are not delivered

107. As noted in the section above, our PR24 Business Plan explicitly considered the contribution of government initiatives on our outturn performance against this PC. Our WRMP, together with all south east regional companies and the wider regional plan, considered combinations across the following interventions:

- Water labelling across all water using products,
- Minimum standards for all water using products, and
- New building regulations for new homes and retrofits.

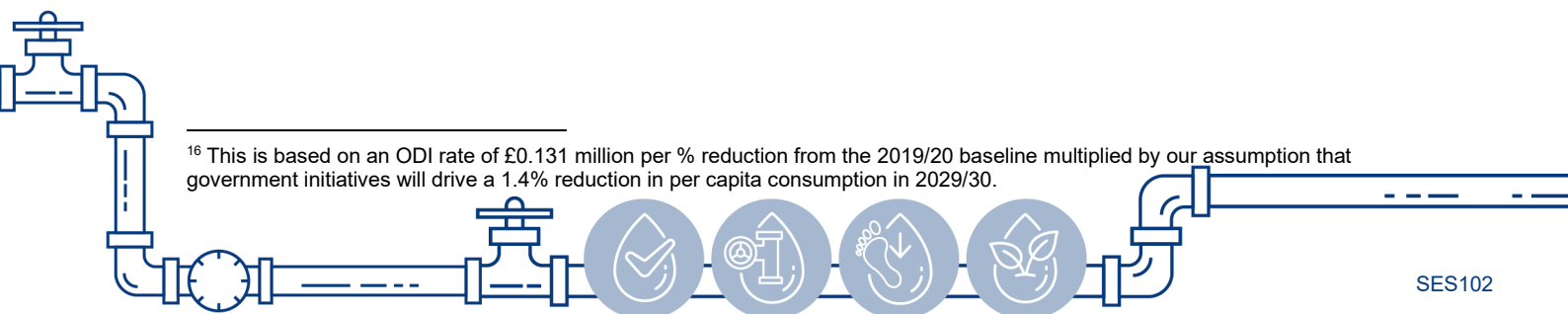
108. In lieu of a timetable of government-led demand interventions being announced, we worked with WRSE and the regional companies to make a reasonable assessment of savings. Of the 11% reduction in Per Capita Consumption that we said we would deliver



by 2029/30, 1.4% of this was assessed to derive from these government-led interventions.

109. Under Ofwat's draft determination approach, companies are fully exposed to the risk that these initiatives are late in implementation, or are not delivered at all. For example, should the government-led initiatives not occur on time we would be exposed to an uncontrollable cost of £0.18 million (2022/23 prices) in 2029/30.<sup>16</sup>
110. We consider that Ofwat should develop a new mechanism to protect companies from the risk that Government does not deliver in this area. We recognise that a range of different approaches could be implemented to accomplish this goal. For example, the PCL and outturn performance could both be adjusted to exclude the impact of Government initiatives in this area. Similarly, Ofwat could develop an ex-post review of the extent to which Government initiatives materialised on time.
111. We consider that an ex-post review is the least disruptive approach which still accomplishes the objective of protecting companies from delivery risk that is outside of their control. We note that this approach would align with the end-of-period adjustment mechanism that Ofwat's draft determination has proposed for business demand.
112. We consider that this approach could work as follows:
- At the end of AMP8, companies could submit evidence to show that there was a non-delivery and/or late-delivery of specified government initiatives which were assumed to be delivered alongside the PR24 Business Plans.
  - If Ofwat considers that appropriate and sufficient evidence has been provided, it could make an adjustment to the PCL which was set for Per Capita Consumption. Such an adjustment could be limited to the impact associated with Government spending that has already been assumed by companies within their PR24 Business Plans. For example, our PCL could be reduced by a maximum of 1.4% in 2029/30 should Government initiatives in this area not materialise on time.
  - If Ofwat determines that Government initiatives were not delivered and that a PCL should be adjusted, an ex-post true up payment could be made to compensate companies for ODI payments made for reasons outside of their control. We note that this approach would continue to expose companies to financial risk within the AMP (i.e., until the point where the ex-post review occurs).
113. We consider that this proposal reflects a proportionate approach to protect companies from risk which is entirely outside of our control. It would also ensure that any ex-post review is targeted and does not result in companies seeking to re-open their PCL for wider reasons. For example, it ensures that companies hold all the risk related to the effectiveness of government interventions and that they cannot seek to trigger this re-opener on the basis that the Government interventions did not have as large an impact as expected.
114. We are open to working with Ofwat to support the development of a sensible proposal that works for the industry while also not dampening wider incentives on companies to perform in this area. We believe that PCDs directly related to our demand management proposals – specifically concerning our smart metering and leakage activities – provide an additional layer of protection to the PCL ODI.

<sup>16</sup> This is based on an ODI rate of £0.131 million per % reduction from the 2019/20 baseline multiplied by our assumption that government initiatives will drive a 1.4% reduction in per capita consumption in 2029/30.



## F. Representation 4 – Business Demand

In this section, we comment on the approach used to model business demand and outline our concerns. We also consider the end of AMP reconciliation proposed by Ofwat to manage the effects of economic growth on company performance to reduce non-household demand; and we present a proposed alternative approach to the PCL that aims to simplify the regulatory analysis required for the end of period review.

115. The Business Demand performance commitment is designed to incentivise water companies to promote water efficiency across business customers; thereby contributing to improved water resources supply-demand balance and the need for water abstraction. The performance commitment is based on the reduction in demand from non-households using three-year rolling average from our 2019/20 baseline.
116. We support performance being monitored in this area, and the requirement for retailers to work with wholesalers in achieving reduced Business Demand. However, we are extremely concerned that the stretching PCL proposed in Ofwat's draft determination does not reflect Government expectations or feasible levels of demand reduction.
117. While we strongly welcome Ofwat's introduction of a mechanism to protect companies and consumers from exogenous changes in Business Demand, we also have some targeted concerns around the way that this mechanism has been designed.
118. The rest of this section is structured as follows:
- We first outline the financial impact of the draft determination PCL.
  - We then propose an alternative PCL.
  - We then comment on the mechanism designed to protect companies and consumers from exogenous changes to Business Demand.

### Financial impact of the draft determination PCL

119. Our PR24 Business Plan proposed a PCL that would deliver a Business Demand reduction of 5.1%, from our 2019/20 baseline, by the end of AMP8. As shown in Table 14 below, this level of performance will allow us to meet the Government's interim Environmental Improvement Plan (EIP) target of a 9% reduction in demand by 2038.

**Table 14 Overview of Business Plan and draft determination PCL against EIP targets**

% reduction from the 2019/20 baseline, 3-year rolling basis	2025/26	2026/27	2027/28	2028/29	2029/30
Delivered from base expenditure	2.9%	2.0%	2.3%	2.6%	2.8%
Delivered from enhancement expenditure	1.8%	1.3%	1.6%	2.0%	2.3%
<b>Total performance</b>	<b>4.7%</b>	<b>3.4%</b>	<b>4.0%</b>	<b>4.5%</b>	<b>5.1%</b>
Ofwat's draft determination PCL	6.9%	8.0%	10.3%	12.6%	14.9%
EIP target (pro rata assessment)	0.7%	1.4%	2.1%	2.8%	3.5%

Source: SES Water and Ofwat's PR24 draft determination

120. Table 14 above illustrates that Ofwat have set the PCL for AMP8 at a level that is several multiples beyond our PR24 Business Plan and beyond what is required to meet the EIP target. Specifically, the PCL proposes we meet the 2050 EIP target for business demand within AMP8 alone. We believe this has, in part, arisen as a result of the prescribed inputs required to fulfil the relevant Outcome tables that do not reflect our proposed PCL.

121. We understand that historical performance levels and statutory or other performance targets were considered when setting performance commitment levels for PCs where no PR19 level exists<sup>17</sup>. Further analysis of the ODI model suggests a trend-based analysis has also been considered in setting the PCL. We believe this approach undermines the detailed work to accurately forecast non-household business demand as part of our WRMP using methodology that aligns with the Water Resources Planning Guideline which Ofwat co-author. As such, we consider the resulting PCL to be unachievable.

122. Table 15 below illustrates the ODI penalties that we would incur based on Ofwat's draft determination PCL and ODI rate and cap/collar rate of 0.5% RoRE under different outturn performance scenarios. This shows that we would incur ODI penalties of £1.63 million (2022/23 prices) if our outturn performance aligns with what we committed to delivering within our Business Plan.

**Table 15 Financial impact of the draft determination PCL and ODI rate for Business Demand**

Business demand	2025/26	2026/27	2027/28	2028/29	2029/30
Ofwat's DD PCL (% reduction)	6.9%	8.0%	10.3%	12.6%	14.9%
Ofwat's DD ODI (£m / % reduction)	±0.053	±0.053	±0.053	±0.053	±0.053
PR24 Business Plan: performance commitment					
SES performance forecast (% reduction)	4.7%	3.4%	4.0%	4.6%	5.1%
Implied ODI payment (pre-tax £m, 2022/23)	-0.12	-0.24	-0.33	-0.42	-0.51
Implied RoRE impact (%)	-0.06%	-0.11%	-0.15%	-0.19%	-0.22%
PR24 Business Plan: P10 performance					
SES performance forecast (% reduction)	0.0%	1.0%	2.0%	3.0%	4.0%
Implied ODI payment (pre-tax £m, 2022/23)	-0.36	-0.37	-0.44	-0.50	-0.57
Implied RoRE impact (%)	-0.17%	-0.17%	-0.20%	-0.22%	-0.25%
PR24 Business Plan: P90 performance					
SES performance forecast (% reduction)	7.1%	8.1%	9.1%	10.1%	11.1%
Implied ODI payment (pre-tax £m, 2022/23)	0.01	0.00	-0.06	-0.13	-0.20
Implied RoRE impact (%)	0.00%	0.00%	-0.03%	-0.06%	-0.09%

Source: SES Water analysis

123. Table 15 also shows that we face material downside risk associated with this ODI. Performing at the P10 level would result in an aggregate penalty of £2.24 million (2022/23 prices) while performing at the P90 level would also result in a penalty of £0.38 million (2022/23 prices). The fact that we continue to face a financial penalty even at our

<sup>17</sup> Details collated from Ofwat PR24 webinar covering PC Overview.

P90 level of performance shows the scale of the challenge that Ofwat have set with the adoption of this PCL.

## Proposed remedy and alternative PCL

124. We consider that Ofwat's draft determination PCL significantly overestimates a level of performance that we consider to be reasonable and achievable. We therefore propose that the PCL for Business Demand is set at the ambitious level already proposed in our PR24 Business Plan. We illustrate the financial impact of adopting this PCL in Table 16 below.

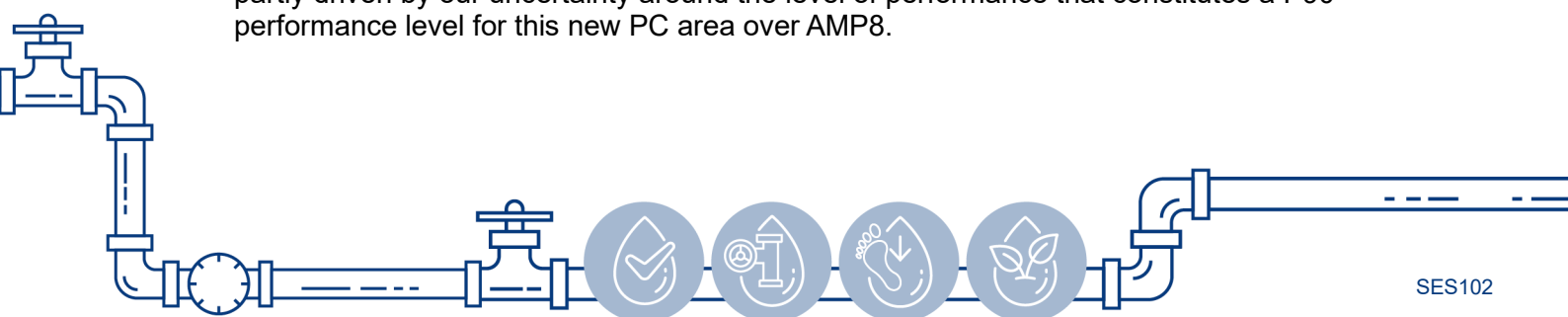
**Table 16 Financial impact of adopting our proposed PCL for Business Demand**

Business demand	2025/26	2026/27	2027/28	2028/29	2029/30
SES proposed PCL (% reduction)	4.7%	3.4%	4.0%	4.6%	5.1%
Ofwat's DD ODI (£m / % reduction)	±0.053	±0.053	±0.053	±0.053	±0.053
PR24 Business Plan: performance commitment					
SES performance forecast (% reduction)	4.7%	3.4%	4.0%	4.6%	5.1%
Implied ODI payment (pre-tax £m, 2022/23)	0.00	0.00	0.00	0.00	0.00
Implied RoRE impact (%)	0.00%	0.00%	0.00%	0.00%	0.00%
PR24 Business Plan: P10 performance					
SES performance forecast (% reduction)	0.0%	1.0%	2.0%	3.0%	4.0%
Implied ODI payment (pre-tax £m, 2022/23)	-0.25	-0.12	-0.10	-0.08	-0.06
Implied RoRE impact (%)	-0.12%	-0.06%	-0.05%	-0.04%	-0.03%
PR24 Business Plan: P90 performance					
SES performance forecast (% reduction)	7.1%	8.1%	9.1%	10.1%	11.1%
Implied ODI payment (pre-tax £m, 2022/23)	0.12	0.25	0.27	0.29	0.31
Implied RoRE impact (%)	0.06%	0.11%	0.12%	0.13%	0.13%

Source: SES Water analysis

125. Table 16 illustrates the level ODI penalties/rewards that we would face for Business Demand if the PCL aligned with what was proposed in our PR24 Business Plan. Performing at the P10 level would result in an aggregate penalty of £0.62 million while performing at the P90 level would result in an aggregate reward of £1.24 million. We consider that these payments reflect a much more symmetric balance of risk and return relative to the impact of the PCL adopted in Ofwat's draft determination.

126. We acknowledge however that the financial upside and downside risk shown in Table 16 is also not perfectly symmetric – i.e., financial rewards for performing at the P90 level are greater than the penalties we would receive from performing at the P10 level. This is partly driven by our uncertainty around the level of performance that constitutes a P90 performance level for this new PC area over AMP8.





## End of period PCL adjustment mechanism

127. We understand Ofwat's intention to introduce an end of period PCL adjustment mechanism for Business Demand with a view to accounting for the fact that outturn performance will be driven by a number of factors that are outside of companies' control.

128. This is largely expected to centre around growth which companies must support through effective water resources management planning and our statutory obligations. Most notably in our area, this may include London Gatwick's development for a northern runway. Other growth areas largely align with service sectors to accommodate population growth, such as health, education and local economy services.

129. Whilst we appreciate an end of period PCL adjustment mechanism may be required to assess the level of growth experienced by a company against performance based on company activity, we consider that the proposed mechanism may be overly complex and relatively difficult to cleanly administer at the end of the AMP. We believe that our WRMP non-household demand forecast already provides sufficient detail to conclude the expected level of growth, and that companies can provide specific evidence where demand arising from growth may exceed the forecast captured in our preferred WRMP pathways.

130. In addition, we consider that there are issues with the end of period PCL adjustment mechanism proposed by Ofwat's draft determination. Currently, the adjustment mechanism will only be triggered if the net variance between actual outturn and the PCL for the whole 2025-30 period is at or larger than +/-3%. We consider that this exposes both water consumers and companies to unnecessary risk.

131. We illustrate this through two stylised examples shown in Table 17 below. These examples follow the structure developed by Ofwat in Table 1 of its document that defines Business Demand for PR24.<sup>18</sup>

**Table 17 Illustration of challenges associated with the end of period PCL adjustment mechanism**

Business demand	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Example 1: Where there is a growth in consumption due to growth in commercial productivity						
A: PCL (Ml/d)	100	100	100	100	100	-
B: Outturn scenario (Ml/d)	90	90	106	106	106	-
<b>C = (B-A)/A: Difference (%)</b>	<b>10%</b>	<b>10%</b>	<b>-6%</b>	<b>-6%</b>	<b>-6%</b>	<b>2%</b>
D: Increased consumption due to commercial growth	0	0	16	16	16	-
E: Outturn performance excluding commercial growth	90	90	90	90	90	-
Example 2: Where there is a reduction in consumption due to a decline in commercial productivity						
A: PCL (Ml/d)	100	100	100	100	100	-
B: Outturn scenario (Ml/d)	110	110	94	94	94	-
<b>C = (B-A)/A: Difference (%)</b>	<b>-10%</b>	<b>-10%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>-2%</b>

<sup>18</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2023/05/Business-demand.pdf>

D: Increased consumption due to commercial growth	0	0	-16	-16	-16	-
E: Outturn performance excluding commercial growth	110	110	110	110	110	-

Source: SES Water analysis

132. In Example 1, the company is performing 10% better than its PCL until a point where there is an increase in consumption due to commercial business growth. This company would however not be eligible for Ofwat’s proposed adjustment mechanism because of the way that its performance is profiled across the AMP – i.e., the aggregate variance is not greater than 3%. As a result, this company will be required to pay ODI penalties between 2027/28 and 2029/30 despite its strong underlying performance.

133. In Example 2, the company is performing 10% worse than its PCL until the point where there is a reduction in consumption due to a decline in commercial activity. This company would also not be eligible for the proposed end of period adjustment mechanism because of the way that its performance is profiled across the AMP. As a result, customers would be required to pay ODI rewards to this company between 2027/28 and 2029/30 despite its weak underlying performance.

134. We recognise that there are a range of approaches that could be implemented which could protect both consumers and companies from the impact of changes in commercial activity on Business Demand.



## G. The impact of our representations on risk and return

This section summarises the impact of adopting all of the representations outlined in this Appendix on ODI risk and return. We consider that our representations result in a more symmetric balance of risk and return which nonetheless retains a material incentive on our business to deliver the stretching Outcomes proposed in our PR24 Business Plan.

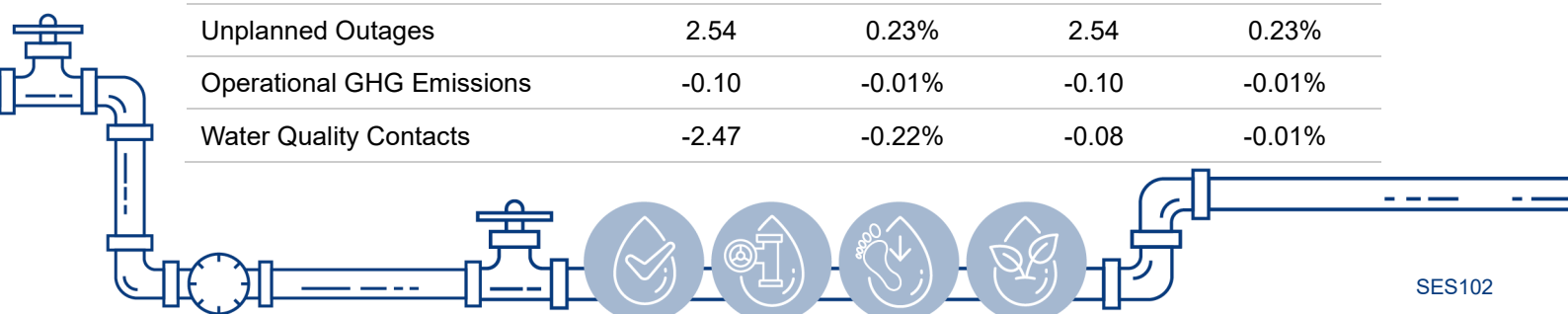
135. This Appendix has set out four key representations regarding Ofwat's draft determination decisions on PCLs and ODI rates.
- We have proposed a change to the ODI rate for Discharge Permit Compliance.
  - We have proposed a change to the PCL and ODI rate for Water Quality Contacts.
  - We have proposed a change to the PCL for Per Capita Consumption.
  - We have proposed a change to the PCL for Business Demand.
136. We have also suggested wider changes to the end of period PCL adjustment mechanism for Business Demand as well as for the introduction of a new mechanism to account for the impact of Government spending on Per Capita Consumption.
137. This section summarises the impact of adopting these proposals on ODI risk and return.

### Impact of our representation cases on the ODI penalties and rewards associated with delivering our PR24 Business Plan outcomes

138. Table 18 illustrates the financial ODI impact of delivering the commitments set out in our PR24 Business Plan before and after our representation cases are accounted for. We highlight again that the commitments that are set out in our PR24 Business Plan represent ambitious and stretching performance targets for the next AMP. These targets will be delivered from a mix of both base and enhancement expenditure.

**Table 18 – Comparison of ODI impacts from delivering on PR24 Business Plan before and after accounting for our representation cases**

Financial impact of PCLs and ODI rates	Based on Ofwat's draft determination		After accounting for our representation cases	
	Total £m (2022/23)	Av. RoRE impact (%)	Total £m (2022/23)	Av. RoRE impact (%)
Water Supply Interruptions	0.59	0.05%	0.59	0.05%
Leakage	0.08	0.01%	0.08	0.01%
Per Capita Consumption	-0.80	-0.07%	0.00	0.00%
Mains Repairs	0.00	0.00%	0.00	0.00%
Unplanned Outages	2.54	0.23%	2.54	0.23%
Operational GHG Emissions	-0.10	-0.01%	-0.10	-0.01%
Water Quality Contacts	-2.47	-0.22%	-0.08	-0.01%



Business demand	-1.63	-0.14%	0.00	0.00%
Biodiversity	0.71	0.06%	0.71	0.06%
Serious Pollution Incidents	0.00	0.00%	0.00	0.00%
Discharge Permit Compliance	0.00	0.00%	0.00	0.00%
Compliance risk index	0.00	0.00%	0.00	0.00%
<b>Total</b>	<b>-1.08</b>	<b>-0.09%</b>	<b>3.74</b>	<b>0.34%</b>

Source: SES Water analysis of PCLs and ODI rates

139. Based on Ofwat's draft determination decisions, we would face a pre-tax ODI penalty of £1.08 million (2022/23 prices) across AMP8 for delivering on the commitments that are set out in our PR24 Business Plan. This is the equivalent to a post-tax RoRE impact of -0.1%.

140. After accounting for the representation cases set out in this Appendix, delivering on the Outcomes that are set out in our PR24 Business Plan would result in a pre-tax reward of £3.74 million (2022/23 prices). This is the equivalent of a post-tax RoRE impact of 0.3%. We note that this however rests on delivering the stretching targets that we have set for ourselves in our PR24 Business Plan and that most of this reward is driven by Unplanned Outages.

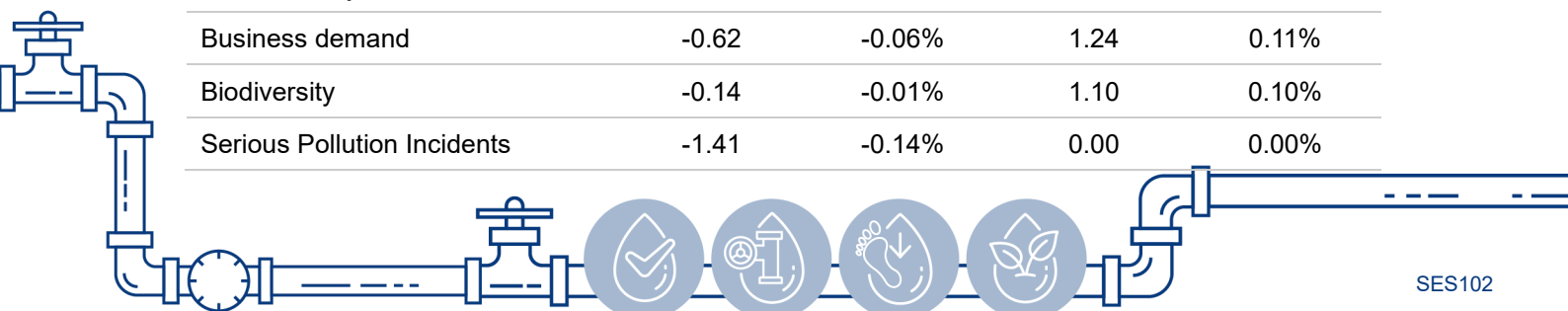
141. We consider that, on balance, this is a reasonable position to undertake as we are ultimately targeting very stretching and ambitious performance across AMP8.

## Impact of our representation cases on the balance of risk and return

142. The ODI penalties and rewards that we would incur from delivering the P10 and P90 performance outcomes after accounting for our representation cases are shown in Table 19 below.

**Table 19 – ODI impact of delivering P10 and P90 performance levels after accounting for our representation cases**

Financial impact of PCLs and ODI rates	P10 Performance		P90 Performance	
	Total £m (2022/23)	Av. RoRE impact (%)	Total £m (2022/23)	Av. RoRE impact (%)
Water Supply Interruptions	-0.73	-0.07%	1.44	0.13%
Leakage	-4.12	-0.37%	3.03	0.27%
Per Capita Consumption	-4.05	-0.37%	0.24	0.02%
Mains Repairs	-2.09	-0.19%	1.95	0.18%
Unplanned Outages	0.65	0.06%	4.78	0.43%
Operational GHG Emissions	-0.70	-0.06%	0.00	0.00%
Water Quality Contacts	-1.71	-0.15%	0.89	0.08%
Business demand	-0.62	-0.06%	1.24	0.11%
Biodiversity	-0.14	-0.01%	1.10	0.10%
Serious Pollution Incidents	-1.41	-0.14%	0.00	0.00%

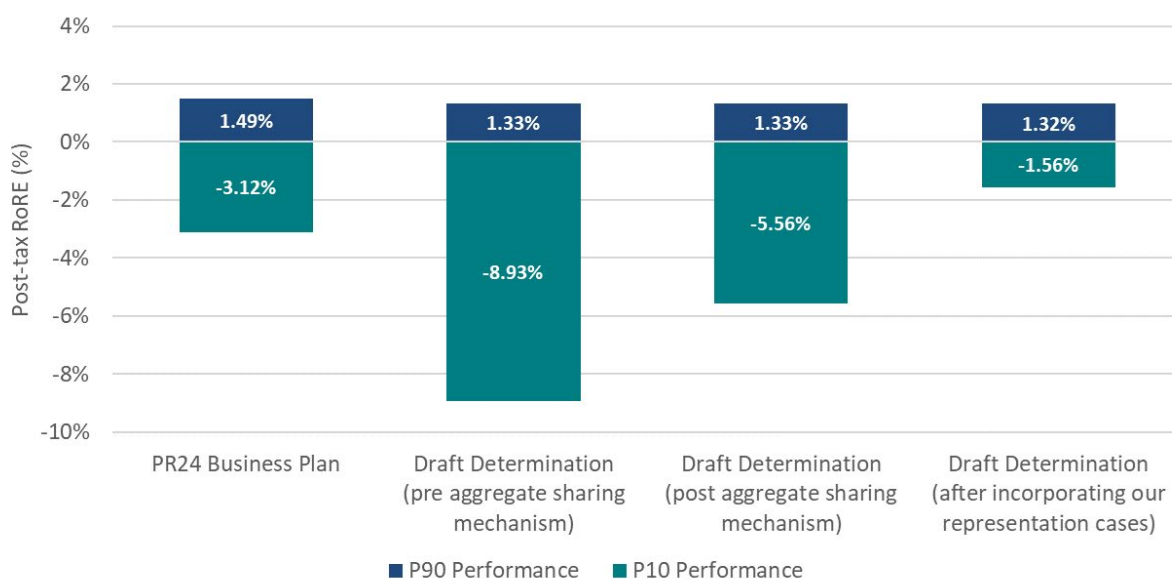


Discharge Permit Compliance	-1.00	-0.09%	0.00	0.00%
Compliance risk index	-1.21	-0.11%	0.00	0.00%
<b>Total</b>	<b>-17.12</b>	<b>-1.56%</b>	<b>14.67</b>	<b>1.32%</b>

Source: SES Water analysis of PCLs and ODI rates

143. Table 19 shows that our four representation cases create more symmetry in the balance of risk and return across the package of ODIs. The ODI impact at the P10 performance level falls from -5.56% to -1.56% while the ODI impact at the P90 performance level falls marginally from +1.33% to +1.32%. The aggregate impact of these changes is illustrated in Figure 9 below.

**Figure 9 – Comparison of ODI impact on RoRE based on the PCLs and ODIs assumed in the PR24 Business Plan and what has been set in the draft determination**



Source: SES Water analysis

144. Figure 9 shows that SES Water would still retain a greater degree of level of downside risk in AMP8 (-1.56% RoRE vs +1.32% RoRE) should the proposals set out in this document be adopted in Ofwat’s final determination. However, we consider that this range represents a more reasonable level of symmetry in the balance of risk and return across the package of ODIs relative to Ofwat’s draft determination which results in a disproportionate and unprecedented level of downside risk.



## H. How our representations are reflected in our data tables

145. To capture our responses to Ofwat’s draft determination on our outcomes, we have completed the following actions (Table 20).

**Table 20 Summary of actions recording our representations in relevant Table updates**

Representation component	Actions to capture our response
Discharge Consent Compliance	We have corrected Table entry OUT4.87 to reflect the correct number of sites relevant to this PC.
Water Quality Contacts	Our proposed performance (0.6) is maintained in the OUT1 Table from our Business Plan submission. As noted in this Appendix, we have proposed that the PCL is set below this performance level at 0.58.
Per Capita Consumption	We have altered our inputs to OUT1.10 to reflect our proposed PCL captured in our PR24 Business Plan (Section 6 – Outcomes we will deliver). Upstream inputs in OUT4 remain the same for reference.
Business Demand	We have altered our inputs to OUT1.11 to reflect our proposed PCL captured in our PR24 Business Plan (Section 6 – Outcomes we will deliver). Upstream inputs in OUT4 remain the same for reference.



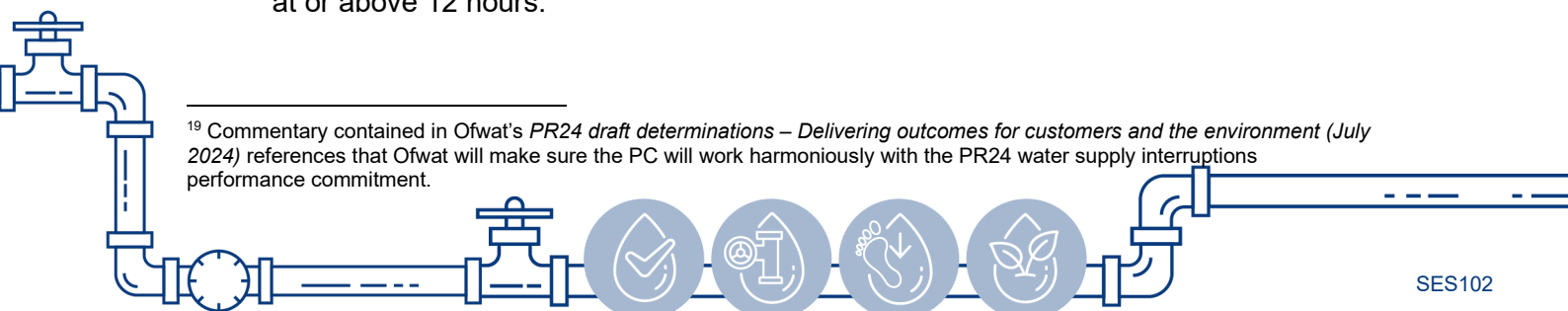
## I. Our consideration to a proposed new performance commitment - Severe water supply interruptions

146. Ofwat's draft determination provided initial details for an additional common PC being considered for introduction across the industry. Recognising that prolonged interruptions to water supply are a significant element of disruption to customers, we understand that Ofwat's research and investigations into events over the last several years has led to our regulator identifying a need to incentivise improved performance across the sector.
147. The initial details of the PC outline that company performance would be assessed against water supply interruptions at or over 12 hours, with these interruptions causing the greatest impacts to customers. We concur that longer water supply interruptions are highlighted to be most impactful to customers – causing inconvenience and disturbance, and degrading trust and confidence in the service provided.
148. As companies identified during the Ofwat PR24 draft determination seminars, there is an overlap with the existing water supply interruptions PC. Several companies raised particular concerns as to whether 'double counting' would arise from assessing company performance across the two metrics.
149. We acknowledge that Ofwat has already set out the new performance commitment would need calibrating to avoid this, and that some existing PCs have been cited to work in an aligned manner<sup>19</sup> – namely total pollution incidents and serious pollution incidents. We would add that these two PCs are not common across the industry, and we have therefore not made any representations as to whether there may be some issues with calibrating two closely related PCs. We therefore consider it is most beneficial to outline how we believe the two water supply interruption PCs could work to balance industry incentive and protect companies from uncontrollable risks arising in the event of a prolonged interruption.

### Our consideration as to how the water supply interruption PCs could work together

150. To confirm, we support the concept of an additional PC to incentivise improved performance across the industry that reduces the level of severe water supply interruptions.
151. We also support the sentiment by Ofwat that this PC should have a consistent approach with the PR24 methodology, and we therefore consider that this proposed PC should be set as an industry-wide PCL – as the Water Supply Interruptions PC currently is – as opposed to company-specific PCL. For similar reasons we think that this PC should be structured so that companies are exposed to upside and downside risk – as the Water Supply Interruptions PC is.
152. To have alignment across the two PCs, we consider that there are two options:
- (a) The PC definition for Water Supply Interruptions is altered to have an upper limit of 12 hours. This would help ensure that there is no overlap between the Water Supply Interruptions PC and the proposed severe water supply interruptions PC. In essence, the Water Supply Interruptions PC would cover the period between three to 12 hours of interruptions, and the severe water supply interruptions PC would cover interruption at or above 12 hours.

<sup>19</sup> Commentary contained in Ofwat's *PR24 draft determinations – Delivering outcomes for customers and the environment (July 2024)* references that Ofwat will make sure the PC will work harmoniously with the PR24 water supply interruptions performance commitment.



(b) The ODIs relevant to both PCs are structured in such a way that companies are protected from the risk of double-counting penalties for the same incident.

153. We believe the first option (a) presents a greater opportunity to achieve a relatively simple means of monitoring and assessing company performance, thereby mitigating long term additional resourcing needs to continually calibrate interlinking PCLs/ODIs every AMP.

### Our comments concerning the ADD23 data table request

154. We have provided data in ADD23 and the related tables from 2020/21 to 2023/24. We have limited data (at this stage) to provide further information for the preceding years, or to forecast our performance up to 2034/35.

155. With additional time, as we expect to collaborate with Ofwat in developing this additional PC, we will provide further information and data to inform assessment of the PCL and related financial penalty/reward structure.

