

A large circular graphic composed of various white line-art icons on a teal background. The icons include a person with a headset, a cloud with circuit lines, a "net zero" circle with a leaf, a water drop with a checkmark, a target, a person at a computer, a hand holding a water drop, a globe with a thermometer, a person with an upward arrow, a leaf, a person, a water drop with a checkmark, a glass of water, and hands holding a water drop. The central text is surrounded by these icons, which are connected by a dashed circular line.

**APPENDIX  
SES113  
EXTERNAL  
ASSURANCE -  
PA CONSULTING**



28th August 2024

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Dear Paul

## **PR24 Draft Determinations Board Assurance – PA Consulting Advice to the SES Water Board**

This letter provides the background to our PR24 Draft Determinations Board assurance support role, our scope of work, the approach we have taken, and a summary of our findings. This letter was prepared under the terms of our engagement letter solely for SES Water use for the purpose of assessing key elements of SES Water's response to Ofwat's PR24 Draft Determinations.

### **Background**

Ofwat's PR24 Final Determinations will set the performance targets, cost allowances, risk and return package and incentives for water companies across England and Wales, including SES Water for the 2025-30 period. In preparation for this, SES submitted its Business Plan to Ofwat for the period from 1 April 2025 to 31 March 2030 in October 2023.

Ofwat's PR24 final methodology made it clear that they expect all companies - including SES Water - to submit a high quality and ambitious Business Plan, and a high quality LTDS.<sup>1</sup> As part of this process, the SES Water Board of Directors ("the Board") provided a number of assurance statements in relation to the ambition and quality of the plan, in the round, and on various specific aspects including; LTDS, affordability, cost and outcomes, risk and return, and customer engagement.<sup>2</sup>

PA Consulting was commissioned to support the Board, over several months in 2023, to review the assurance which SES and its external advisers had undertaken on SES Water's Business Plan submitted to Ofwat in October 2023, and whether that combination of internal and external assurance satisfied SES Water's three lines of defence assurance framework. PA Consulting provided SES Water's Board with a letter and report setting out our views about whether the Board could sign the assurance statements requested by Ofwat, and the reasons we had for reaching those conclusions based on the supporting evidence that we had reviewed and

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<sup>1</sup> Ofwat's expectations on assurance and governance at PR24 are set out on p140 in the "PR24 final methodology – main document", published in December 2022 [https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24\\_final\\_methodology\\_main\\_document.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24_final_methodology_main_document.pdf)

<sup>2</sup> Ofwat's Board assurance requirements are set out in Table 10.2 (p142-143) in the "PR24 final methodology – main document", published in December 2022 [https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24\\_final\\_methodology\\_main\\_document.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24_final_methodology_main_document.pdf)

assessed.

The assurance statements which the SES Water Board made were very closely aligned with the specific wording of those statements requested by Ofwat, as noted in our letter of October 2023. The Board also proposed assurance statements in relation to Ambition and Compliance in line with Ofwat guidance.

On 11<sup>th</sup> July 2024, Ofwat published its' Draft Determination for the PR24 Price Review and invited SES Water to respond to those PR24 Draft Determinations by 28<sup>th</sup> August 2024.

Ofwat has requested that the Board provide assurance of the response to the PR24 Draft Determinations. While Ofwat has not prescribed a set of specific assurance statements which the Board is requested to make, the areas of the PR24 Draft Determinations which SES Water is expected to respond to cover most aspects of the Board assurance statements made in October 2023 e.g. affordability, cost and outcomes, risk and return. For completeness we note here that within the PR24 Draft Determinations Pro forma submission, Ofwat have also stated:

- *Ofwat PR24-draft-determination-Pro forma – Tab RP1 - Line 25: "Please provide additional board assurance and supporting evidence to confirm and explain how you have assessed that you will maintain adequate levels of financial resilience in 2025-2030 and beyond, in the context of our draft determinations."*
- *Ofwat PR24-draft-determination-Pro forma – Tab RP1 - Line 82 "Companies' submissions should be clear on progress on their end of period performance commitments and provide explicit third-party assurance on the elements that may not be delivered at all, the elements that may be delivered late and the expected delivery date(s) of the late elements. This should include assurance of the payments that would be associated with both non delivery and late delivery separately"*

It should be noted that the scope of the work by PA Consulting did not cover the latter bullet point.

The SES Water Board was required to own and be accountable for SES Water's representations in response to the PR24 Draft Determinations. SES also sought to ensure the Board Assurance statements given in the October 2023 submission were still valid and to identify any updates to these statements based on the PR24 Draft Determination representations.

### Scope of work

In August 2024, SES requested further support from PA Consulting to ensure the completeness and accuracy of its submissions to Ofwat following on from its Draft Determinations and to ensure that the Board is able to sign its Board Assurance statements that it intends to submit as part of this process.

As directed by Ofwat (Information Notice 24/02 9<sup>th</sup> May 2024), *"the 'Ofwat Company DD Representations Pro forma' should contain, direction to tables or documents that provide information on company views of cost allowances, signpost the company's responses to all our consultation questions and signpost any new issues that the company considers should be addressed as part of our final determinations."*

In this context, SES Water commissioned PA Consulting to:

- Conduct a completeness check of the Pro forma Submission to Ofwat (**Ofwat PR24-draft-determination-Pro forma as updated by Ofwat on 12<sup>th</sup> August 2024**). Where we reviewed the Pro forma to ensure that it had been completed comprehensively and identified any gaps or errors that needed to be addressed ahead of submission.
- Assess whether the Board Assurance Statements made by SES Water in the October 2023 Business Plan submission to Ofwat still hold, considering new information, any



changes to SES Water's position or plans, or SES Water's representations to Ofwat's PR24 Draft Determinations.

- Provide wider assurance that any changes and updates to SES Water's position or plans have been assured in line with SES's assurance framework to the satisfaction of the Board of such. In so doing review and validate that the Board has thoroughly considered and approved the updates in line with Ofwat's expectations.

For the PR24 Draft Determination representations, PA Consulting's scope of work did not include re-assessment of the actual quality and ambition of the October 2023 Business Plan or the LTDS in its entirety, the quality of the LTDS, or – by extension – any assessment of the evidence prepared by SES Water and its various advisers. The assurance work was limited to areas where there are new representations or additional information being provided in the PR24 Draft Determinations Response Pro forma. In addition, the scope of work did not include assessment of further Business Plan updates given to Ofwat in March as we understand these updates were to not material in nature.

PA Consulting's work was not to duplicate internal and external assurance performed by SES or third parties, but instead to assume that it had been robustly prepared by staff and/or advisers with appropriate expertise and experience, and on that basis undertake the scope of work described above.

## **Our approach**

Our scope of work was delivered through the following assurance activities:

### **Activity 1: Completeness Check of Pro forma Submission**

We conducted an expedited review of the 'Ofwat Company DD Representations Pro forma' submission to Ofwat, including:

- Ensuring all the following sections were completed:
  - RP1 – Ofwat provided actions for companies where they were required to signpost evidence from their representations. Out of 180 questions, as directed by Ofwat, 68 were relevant to SES.
  - RP2 – companies were advised to provide and signpost further evidence and new information, for cost assessment purposes, that was not included in RP1:
    - in support of existing costs.
    - where their costs had changed
    - in support of any cost variance relative to the draft determination.
  - RP3 – companies were invited to highlight the documents and sections in its representations that should be redacted from Ofwat's published documents at Final Determinations.
  - RP4 – other issues summary (excluding cost assessment), companies were invited to provide and signpost evidence where they had identified:
    - new issues that they considered needed to be addressed for the Final Determinations
    - actions that they considered needed to be completed for the Final Determinations

- Cross-referencing each section of the pro forma with Ofwat's QAA checklist<sup>3</sup>, to ensure completeness against Ofwat's expectations.
- Cross-referencing RP3 to the PR24 Draft Determination representations and the PR24 Ofwat Company DD Representations Pro forma to ensure personal or sensitive information (including matters such as GDPR and SEMD) are listed for redaction.
- Reviewing material changes in the PR24 Draft Determination representations from the October 2023 Business Plan submission. The review included checking that the representations had been subject to SES Water's three lines of assurance process, key justifications were in place and that the SES Executive Leadership Team (ELT) had approved these in accordance with the SES assurance process.

## Activity 2: Assessment of Board Assurance Statements

- Using the completeness check outputs and any supporting information that was provided to us by SES Water, we assessed whether the initial Board assurance statements from the October 2023 Business Plan still held in light of new information or changes in SES Water's position or plans in response to the PR24 Draft Determinations. To do this we sought to verify that any changes between October 2023 Business Plan and PR24 Draft Determination Representations had been evidenced and assured, either internally or externally, in line with SES Water's assurance framework (three lines of defence model), and where relevant whether this required any of the Board assurance statements to be amended.

To deliver our scope of work we worked closely with both SES Water's Quality and Compliance Director, Nicola Houlahan, and various members of SES Water's Executive Leadership Team (ELT) and the Board during August 2024. We worked in parallel to SES finalising the relevant Draft Determinations representations and other supporting material, we have reviewed the latest versions as of the date of this letter.

The external assurance providers referred to in activity 1 above included (i) Mott MacDonald (non-financial data tables) and (ii) NERA (financing and RCV run-off rates, financial models and results and financial data tables). We also note that SES Water engaged several external advisors to support its representations to Ofwat's Draft Determinations including:

- NERA –Expert review of the financial representations
- Berkeley Research Group (BRG) - 'Critical Friend' support on SES Water's overall business planning approach and interpretation of Ofwat guidance.
- Create 51 - document drafting and presentational materials.
- CEPA - regulatory review with specific development of cost assessments (including cost adjustment claims), outcomes and financial modelling.

Table 1 in this letter outlines the expert advice and assurance provided for the draft representations.

The following section of this letter summarises our findings from these activities.

## Summary of our findings

### Activity 1

To assess the completeness of each response within RP1 of the Pro Forma Submission we reviewed the question from Ofwat and the corresponding answers from SES and checked that

<sup>3</sup> OFWAT INFORMATION NOTICE – Table Schedule – 22 August 2024, tab 'QAA'

the answer covered all of the issues raised in the question. We did not assess whether the answer was robust or correct, as that was outside of our scope, but we reviewed each line of RP1 with the relevant ELT owner to validate that they considered the answer had factually addressed the question from Ofwat and that the ELT owner had signed off the response as per the SES control schedule<sup>4</sup>. The meetings that we held with the ELT are summarised in Annex 2.

To assess the completeness of each response within RP2, RP3 and RP4 of the Pro Forma Submission we cross-referenced the SES responses with RP1 and the representations to ensure consistency. A final review was undertaken with the SES Chief Financial Officer and signed off on 27th August 2024.

### Updated and Improved Evidence

In relation to the material changes PR24 Draft Determination representations from the October 2023 Business Plan submission, we reviewed the representation documents. Based on the above reviews, the following items were identified as being either materially updated or improved evidence had been provided to Ofwat as part of the Draft Determination representations:

- Base Allowances – Softening Cost Adjustment Claim (CAC) – SES’s opex representation has provided additional justification which challenges Ofwat’s approach to the modelling of softening costs and demonstrates how this is inconsistent with prior price reviews. The Capex representation is focused on providing additional evidence on cost efficiency and optioneering to demonstrate that the proposed approach represents value for money for customers.
- Base Allowances - Pumping CAC – SES has revised downwards its proposed power CAC to £17m for AMP8 to exclude energy real price effects which are now captured in Ofwat’s energy true-up mechanism.
- Enhancement Expenditure – Smart Metering: SES is seeking its original submission of £24.79 million in enhancement expenditure, plus an additional £0.50 million enhancement expenditure associated with Customer-Side Leakage which was reallocated to smart metering by Ofwat from its leakage enhancement model. SES has undertaken detailed market engagement since the PR24 Business Plan submission, which has provided insight on the cost of purchasing, installing, operating and maintaining meters. Based on this engagement, SES now considers the original submission to be an underestimate of £0.6 million. SES are accepting this additional challenge to deliver more through base expenditure.
- Enhancement Expenditure – Leakage: SES’s representation is based on challenge to Ofwat’s benchmarking approach on unit costs for leakage reduction. SES also requests an additional £2.5m for upstream flow monitoring zones to meet Ofwat’s new requirement for trunk main flow balancing in AMP8. As above, £0.5m of the initial claim has been reallocated to Smart Metering as per Ofwat’s leakage enhancement modelling approach.
- Enhancement Expenditure – Lead: SES consider that Ofwat’s benchmarking exercise resulted in an efficiency challenge that was based on incorrect data on volumes of activity.

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<sup>4</sup> Draft Determination Plan.xlsx, tab ‘DD control schedule’

- Enhancement Expenditure – Resilience Enhancement: SES is seeking an additional allowance for WINEP investigations to ensure ongoing operational resilience.
- Enhancement Expenditure – Efficiency Challenge: SES challenges Ofwat's application of a 20% cap on the shallow-dive efficiency adjustment for non-benchmarked enhancement costs, where it considers that the cap should be reduced to 10% as in PR19.
- Financeability (inclusive of RoRE and RCV run-off rates): SES are concerned that Ofwat's draft determinations imply a significant negative skew between risk and reward, primarily driven by some of the penalty rates proposed within Ofwat's ODI package, as well as the wholesale cost allowances proposed.

We reviewed whether the Representations had been subject to SES Water's three lines of defence assurance framework. To do this we checked (i) that each Representation had been prepared by an appropriate individual within SES Water and/or an appropriate external adviser; and (ii) that the Representation, or the updated and new evidence at the core of the Representation, had been subject to external assurance and that the external assurer had provided their final report to SES Water indicating that they had not identified any unresolved issues within the Representation and that they were satisfied with the Representation (to the extent required by their scope of work).

Table 1 summarises the review process for the Draft Determination representations including the updated and improved evidence outlined above.

**Table 1 – Representations review process**

Document	Representation Area	Owner	Expert Review	Assurance	Status at time of review
Appendix SES103 - Pumping Cost Adjustment Claim	CAC Power/Pumping	SES Wholesale Director	NERA/BRG	None	Complete
Appendix SES105 - Energy Prices	Energy Costs	SES Wholesale Director	NERA/BRG	None	Complete
Appendix SES104 Softening Cost Adjustment Claim	CAC Softening (opex and capex)	SES Wholesale Director	NERA/BRG	None	Complete
Appendix SES111 - RCV run-off rate	Financing – RCV run off rates	SES Chief Financial Officer	NERA/BRG	NERA	Complete
Appendix SES109_Resilience	Resilience	SES Head of Asset Strategy	CEPA	None	Complete
Appendix SES106 Leakage Reduction Enhancement Costs	Enhancement – Leakage	SES Wholesale Director	CEPA/BRG	None	Complete
Appendix SES102_Outcomes	Outcomes – Discharge Permit Compliance, Water	SES Wholesale Director /	NERA/BRG	None	Complete

Document	Representation Area	Owner	Expert Review	Assurance	Status at time of review
	Quality Contacts, Per Capita Consumption, Business Demand.	SES Chief Customer Officer / SES Quality and Compliance Director			
Appendix SES112 - Balance of Risk and Reward	Financing – RoRE	SES Chief Financial Officer	NERA/BRG	None	Complete
Appendix SES110 - Enhancement Efficiency Challenge	Efficiency challenge	SES Chief Financial Officer	BRG	None	Complete
Appendix SES107 - Smart Metering Enhancement	Smart Metering	SES Wholesale Director / SES Chief Digital and Information Officer	CEPA/BRG	None	Complete
Appendix SES108 Customer Focussed Lead Replacement Programme	Enhancement – lead	SES Wholesale Director	CEPA/BRG	None	Complete

## Activity 2

To assess whether there is sufficient evidence to enable the Board to sign the same Board Assurance statements in relation to the PR24 Draft Determination Representations as the Board signed in relation to the October 2023 Business Plan we reviewed (i) whether the evidence that was cited in support of the Board Assurance Statements in October 2023 had changed or had been updated in the PR24 Draft Determination Representations; and (ii) whether the changes and/or updates to the evidence had been subject to SES Water's three lines of defence assurance framework.

Table 2 below re-states the Board Assurance Statements which were made in October 2023 along with the individual evidence pieces that were cited in support at that time. The "commentary" column then summarises any new or updated evidence which SES had included in its PR24 Draft Determination Representations.

**Table 2 – Board Assurance statements – changes identified in the Draft Determination Representations**

Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
LTDS	The Board confirms that the LTDS reflects the long-term vision and ambition that is shared by the Board and Company management. (Source: LTDS, Section 7, p96)	No change to the LTDS as part of DD representations	None



Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
	<p>The Board is confident that our LTDS is high quality and represents the best possible strategy to efficiently deliver our stated long-term objectives, given future uncertainties. (Source: LTDS, Section 7, p96)</p> <p>The Board is confident that the LTDS will enable the Company to meet its statutory and licence obligations, both now and in the future. (Source: LTDS, Section 7, p97)</p> <p>The Board confirms that the LTDS is based on adaptive planning principles. (Source: LTDS, Section 7, p98)</p> <p>The Board is satisfied that the LTDS has been informed by meaningful engagement with our customers. (Source: LTDS, Section 7, p98)</p> <p>The Board confirms that we have taken steps to secure long-term affordability and fairness between current and future customers, ensuring bills remain affordable for all. (Source: LTDS, Section 7, p99)</p> <p>The Board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long-term delivery strategy. (Source: LTDS, Section 7, p99)</p> <p>The Board has challenged the Company management in terms of the development of the LTDS and the evidence in support of that is largely captured through the detailed summary of Board meetings, minutes and actions, over the period of December 2021 to September 2023, and in the external assurance evidence report produced by PA Consulting to accompany its assurance letter to the Board. (Source: LTDS, Section 7, p100)</p>		
Affordability (PR24 BP)	As a Board, we are confident that the full implication of the 2025-30 business plan for customers was considered and that the plan achieves value for money. (Source: BP, Section 11, para 33)	Financial Modelling has been undertaken to assess the financeability of the updated plan presented in the Draft Determination representations. The modelling has been completed, assured and signed off by the Group CFO. The modelling shows no detriment to customer affordability compared to the Business Plan submitted in October 2023.	None

Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
Affordability (LTDS)	We are also confident that our LTDS protects customers' ability to pay their water bill over the long term and delivers fairness between what existing customers will pay and what is paid for by future customers. (Source: BP, Section 11, para 33)	No change to the LTDS as part of DD representations	None
Costs and outcomes	The Board is satisfied that the proposed performance commitment levels are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure. (Source: BP, Section 11, para 34)	As part of the Draft Determination representations, the company does not propose any changes to the performance commitment levels represented in the October 2023 business plan submission. The company does present further information as part of its representation for the following Performance Commitments in response to Ofwat's assessment of company PCLs (Appendix SES102_Outcomes): <ul style="list-style-type: none"> <li>• Discharge Permit Compliance</li> <li>• Customer Water Quality Contacts</li> <li>• Business Demand</li> <li>• Per Capita Consumption</li> </ul>	None
	The Board confirms that the Business Plan expenditure forecasts are robust and efficient. (Source: BP, Section 11, para 35)	Financial Modelling has been completed, assured (Appendix SES115 External Assurance - NERA) and signed off by the Group CFO. The modelling shows no detriment to customer affordability compared to the Business Plan submitted in October 2023. As part of the Draft Determination representations, the company does not propose any changes over the totex outlined in the October 2023 business plan submission (the same totex of £413.3m), with some minor changes to the overall composition of the totex (details of which are included in the Draft Determination representations). The company does present further information as part of its representation in the following areas in response to Ofwat's base and enhancement modelling challenges: <ul style="list-style-type: none"> <li>• Base Allowances - Softening CAC (Appendix SES104 Softening Cost Adjustment Claim)</li> <li>• Base Allowances - Power CAC (Appendix SES103 - Pumping Cost Adjustment Claim)</li> <li>• Enhancement Expenditure: Smart Metering (Appendix</li> </ul>	None



Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
		<p>SES103 - Pumping Cost Adjustment Claim)</p> <ul style="list-style-type: none"> <li>• Enhancement Expenditure: Leakage (Appendix SES106 Leakage Reduction Enhancement Costs)</li> <li>• Enhancement Expenditure: Lead (Appendix SES108 Customer Focussed Lead Replacement Programme)</li> <li>• Enhancement Expenditure: Resilience (Appendix SES109_Resilience)</li> </ul>	
	<p>The Board is satisfied that all proposed enhancement investment is to address new improvements or requirements and are not influenced by non-compliance or non-delivery of programmes of work (base or enhancement) that customers have already funded. (Source: BP, Section 11, para 36)</p>	<p>As part of the PR24 Draft Determination Representations, the company does not propose any changes to the enhancement expenditure outlined in the October 2023 business plan submission (the same totex of £54.46m). The company does present further information as part of its representation in the following areas of enhancement expenditure in response to Ofwat's questions within the Proforma and its enhancement modelling approaches:</p> <ul style="list-style-type: none"> <li>• Smart Metering (Appendix SES107 - Smart Metering Enhancement)</li> <li>• Leakage (Appendix SES106 Leakage Reduction Enhancement Costs)</li> <li>• Lead (Appendix SES108 Customer Focussed Lead Replacement Programme)</li> <li>• Resilience (Appendix SES109_Resilience)</li> </ul>	<p>None</p>

Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
	The Board is satisfied that the options proposed within the business plan are the best option for customers, and a proper appraisal of options has taken place. (Source: BP, Section 11, para 37)	As part of the PR24 Draft Determination Representations, the company does not propose any changes to the planned interventions represented in the October 2023 business plan submission	None
	The Board is satisfied that the proposed PR24 Plan and expenditure proposals are deliverable, and the Company has put measures in place to secure delivery. (Source: BP, Section 11, para 38)	As part of the Draft Determination representations, the company does not propose any changes to the planned interventions and totex represented in the October 2023 business plan submission. Since the business plan further market engagement (notably smart metering) has been undertaken reducing overall delivery risk.	None
	The Board is satisfied that the business plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments). (Source: BP, Section 11, para 39)	In the Draft Determination Ofwat has introduced a number of additional PCDs to protect customers. The company makes 2 representations on these PCDs: <ul style="list-style-type: none"> <li>• Metering (Appendix SES107 - Smart Metering Enhancement)</li> <li>• Water Softening (Appendix SES104 Softening Cost Adjustment Claim)</li> </ul>	None
	The Board is satisfied that the expenditure proposals are affordable by customers and do not raise bills higher than necessary. (Source: BP, Section 11, para 40)	Financial Modelling has been undertaken to assess the financeability of the updated plan presented in the Draft Determination representations. The modelling has been completed, assured (Appendix SES115 External Assurance - NERA) and signed off by the Group CFO. The modelling shows no detriment to customer affordability compared to the Business Plan submitted in October 2023.	None
	The Board is satisfied that the Business Plan expenditure proposals reflect customer views, and where appropriate are supported by customers. (Source: BP, Section 11, para 41)	SES's CSP issued a letter to Ofwat supporting SES business plan and DD representations on 18th August 2024.	None
Risk and return (financeability)	The Board confirms that the Company's business plan is financeable on the basis of the actual and notional capital structure. (Source: BP, Section 11, para 41)	Financial Modelling has been undertaken to assess the financeability of the updated plan presented in the Draft Determination representations. The modelling has been completed, assured (Appendix SES115 External Assurance - NERA) and signed off by the Group CFO. The modelling demonstrates the Company's business plan is financeable on	None

Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
		the basis of the actual and notional capital structure.	
	The steps taken to enable the Board to make this statement, including the consideration of all components of our business plan and the Ofwat early view on the allowed return on capital, the consideration of the financial ratios are summarised below. (Source: BP, Section 11, para 41)	Representations are made as part of the Draft Determination responses for RCV run-off rates and RoRE.	None
Risk and return (financial resilience)	In addition, the Board confirms that the actual Company is financially resilient over the 2025-2030 period and beyond under its business plan. (Source: BP, Section 11, para 41)	Financial Modelling has been undertaken to assess the financeability of the updated plan presented in the Draft Determination representations. The modelling has been completed, assured (Appendix SES115 External Assurance - NERA) and signed off by the Group CFO. The modelling demonstrates the Company's is financially resilient over the 2025-2030 period and beyond under its business plan. Pennon Group have also issued a letter confirming that it will financially support the PR24 Business Plan, including equity support.	None
Customer engagement	As a Board, we are satisfied that the Company has delivered a high-quality customer engagement and research programme that has followed best practice, addressed each of Ofwat's key principles for engagement research, and has been used to inform our long-term delivery strategy and business plan. (Source: BP, Section 11, para 44)	SES's CSP issued a letter to Ofwat supporting the SES business plan and DD representations on 18th August 2024.	None
Ambition	The Board believe the Company's business plan is ambitious and reflects the expectations and priorities of our customers, stakeholders, regulators and government. (Source: BP, Section 11, para 45)	As part of the draft determination representations, the company does not propose any changes to its ambition as represented in the October 2023 business plan submission	None

Area	SES Water Board Assurance statement – Oct 2023 Business Plan	Commentary	Changes to Board Assurance Statement
	Our long-term ambition is largely defined by the outcomes we will deliver, which are aligned to the performance commitments set by Ofwat for PR24, and are also reflective of our Company's purpose and long-term vision. (Source: BP, Section 11, para 46)	As part of the draft determination representations, the company does not propose any changes to its ambition as represented in the October 2023 business plan submission	None
Compliance with Ofwat guidance	The Board is confident that our business plan is high quality and complies with the guidance provided by Ofwat in their PR24 Final Methodology documents. (Source: BP, Section 11, para 52)	The business plan is the same as that presented in October 2023 with additional information as highlighted in the items above.	None

The documents cited in Table 2 have been checked and assured as per the Draft Determination Review process outlined in Table 1.

PA received confirmation from each of the relevant workstreams and as documented in SES Water's internal Control Schedule<sup>5</sup>.

A full list of all updated evidence/documentation provided in the Draft Determination representations is provided in Table 1 in this letter.

## Conclusion

Following our review of the 'Ofwat Company DD Representations Pro forma' submission to Ofwat, we ensured that all the sections relevant to SES in RP1 were completed and consider that SES's responses were adequate to address the questions posed by Ofwat. We also ensured that an appropriate justification and review process was in place for SES Water's ELT team to have approved its response, in line with SES's assurance process.

Further, based on our review of the information and evidence provided to us by SES Water in relation to its response to the PR24 Draft Determinations and as part of our prior work during 2023, **we consider there to be sufficient evidence to enable the Board to sign the same Board Assurance statements that were made in the October 2023 submission.**

This is contingent on the remaining evidence points being completed to the Board's satisfaction, as delegated to the CEO, CFO and senior Non-Executive Director, prior to issuing the signed Board assurance statements to Ofwat:

- Completion of the Ofwat Company Draft Determinations Representations Pro forma, tab RP3. The Final list of redactions were not ready at the time of our final review.

## Out of scope elements and limitations of our work

PA Consulting was not commissioned to audit the internal assurance work carried out by SES Water's own in-house teams. Separately, PA Consulting had also not been asked to audit any of the further external assurance work provided by various other consultancies that SES Water has commissioned. Any assurance of the data tables produced by SES Water was also outside of PA's scope of work.

The scope of our work was limited solely to those procedures in the scope areas we agreed with SES Water. SES Water was responsible for determining whether the scope of our work

<sup>5</sup>Draft Determination Plan.xlsx, tab 'DD control schedule'



specified was sufficient and we make no representation regarding the sufficiency of these procedures. If we were to perform additional procedures, other matters might come to our attention that would be reported to SES Water.

Our findings should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of this letter. The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information given to us to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such procedures, but contrasts significantly with, for example, a statutory audit.

This letter has been prepared solely for the use of SES Water in accordance with our letter of engagement. Our work has been undertaken solely for the purpose of informing SES Water's Board assurance of its PR24 Draft Determinations response. Our work was not planned or conducted with any other objective in mind and so cannot be relied upon for any other purposes. This letter is based on evidence and information provided to us by SES Water up to 08.00 BST on 28 August 2024. Our letter may be provided to the Water Services Regulation Authority (Ofwat) and included within the PR24 documentation published on SES Water's website in full for information only without any liability on our part. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SES Water for this letter or for the work we have performed.

Yours faithfully

**PA Consulting Services Limited**

A handwritten signature in black ink that reads 'A.T. Legg'.

Signed:

Anthony Legg

Member of PA's Management Group

## Annex 1: Summary of Pro-forma review sessions

DD Action Response Area	ELT Representative	Details of Changes since BP submission identified in the review
<ul style="list-style-type: none"> <li>PR24 Draft Determinations: Accounting for Past Delivery</li> </ul>	Quality and Compliance Director	<ul style="list-style-type: none"> <li>Evidence was provided in the form of approved data</li> <li>Wholesale Director was added as a second reviewer</li> <li>SES required clarity on whether the response should just be end of AMP PCLs and not all PCLs. SES received confirmation that only the end of AMP PCLs were necessary.</li> </ul>
<ul style="list-style-type: none"> <li>Consultation under Sections 12A and 13 of the Water Industry Act 1991 on Proposed Modifications to Condition B: Charges of 16 Water Companies' Licences</li> </ul>	Head of Finance Transformation	<ul style="list-style-type: none"> <li>Evidence provided in the form of a proposed attached letter from SES to be sent to Ofwat</li> <li>The response from Pennon was also provided as evidence</li> <li>It was noted that no modelling had been done in terms of measuring the impact</li> </ul>
<ul style="list-style-type: none"> <li>Delivering Outcomes for Customers and the Environment</li> <li>Expenditure Allowances</li> </ul>	Wholesale Director	<ul style="list-style-type: none"> <li>2 lines were noted to be handed over to Chief Digital and Information Officer.</li> <li>Wording for Section 8.1.3 was noted to be revised</li> <li>CEPA were identified to finish incomplete assurance lines.</li> </ul>
<ul style="list-style-type: none"> <li>Expenditure allowances - Enhancement Cost Modelling Appendix</li> </ul>	Chief Digital and Information Officer	<ul style="list-style-type: none"> <li>Evidence provided in the form of a smart metering enhancement document</li> <li>Email attachment from Chief Digital and Information Officer emailing the board (NED) also provided as evidence</li> </ul>
<ul style="list-style-type: none"> <li>PR24 Draft Determinations: Aligning Risk and Return</li> <li>Delivering Outcomes for Customers and the Environment</li> <li>Expenditure Allowances</li> <li>PR24 Draft Determinations: Ofwat Comments on Cost of Debt Report Submitted by Water UK</li> <li>PR24 draft determinations: Aligning risk and return</li> <li>Quality and ambition assessment – appendix</li> </ul>	Chief Financial Officer	<ul style="list-style-type: none"> <li>Evidence was needed, and subsequently provided in the form of a NERA modelling report to finalise assurance.</li> <li>Wording revised for lines which are unapplicable to SES</li> <li>Independent assurance noted for 2 lines</li> </ul>
<ul style="list-style-type: none"> <li>Expenditure Allowances</li> </ul>	Economic Regulation Manager	N/A



DD Action Response Area	ELT Representative	Details of Changes since BP submission identified in the review
<ul style="list-style-type: none"> <li>Delivering Outcomes for Customers and the Environment</li> </ul>	Chief Customer Officer	N/A

## Annex 2 – Pro forma – Line owners meetings

ELT Owner	Line Reference
Chief Customer Officer	<ul style="list-style-type: none"> <li>Delivering Outcomes for Customers and the Environment               <ul style="list-style-type: none"> <li>➤ (1 line)</li> </ul> </li> </ul>
Quality and Compliance Director	<ul style="list-style-type: none"> <li>PR24 Draft Determinations: Accounting for Past Delivery               <ul style="list-style-type: none"> <li>➤ (1 line)</li> </ul> </li> </ul>
Chief Financial Officer	<ul style="list-style-type: none"> <li>PR24 Draft Determinations: Aligning Risk and Return</li> <li>Delivering Outcomes for Customers and the Environment</li> <li>Expenditure Allowances</li> <li>PR24 Draft Determinations: Ofwat Comments on Cost of Debt Report Submitted by Water UK</li> <li>PR24 draft determinations: Aligning risk and return</li> <li>Quality and ambition assessment – appendix               <ul style="list-style-type: none"> <li>➤ (35 lines)</li> </ul> </li> </ul>
Head of Finance Transformation	<ul style="list-style-type: none"> <li>Consultation under Sections 12A and 13 of the Water Industry Act 1991 on Proposed Modifications to Condition B: Charges of 16 Water Companies' Licences               <ul style="list-style-type: none"> <li>➤ (3 lines)</li> </ul> </li> </ul>
Wholesale Director	<ul style="list-style-type: none"> <li>Delivering Outcomes for Customers and the Environment</li> <li>Expenditure Allowances</li> <li>PR24 Draft Determinations: Accounting for Past Deliver               <ul style="list-style-type: none"> <li>➤ (16 lines)</li> </ul> </li> </ul>
Economic Regulation Manager	<ul style="list-style-type: none"> <li>Expenditure Allowances               <ul style="list-style-type: none"> <li>➤ (1 line)</li> </ul> </li> </ul>
Chief Digital and Information Officer	<ul style="list-style-type: none"> <li>Expenditure allowances - Enhancement Cost Modelling Appendix</li> <li>Expenditure allowances               <ul style="list-style-type: none"> <li>➤ (4 lines)</li> </ul> </li> </ul>