

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 checkmark in a circle, a target, a water tap with a drop, a person at a presentation board, a hand holding a water drop, a globe with a thermometer, a group of people, a leaf, a person, a water drop with a leaf, a glass of water, and a water tap. The central text is overlaid on a white circle within this graphic.

**APPENDIX  
SES116  
CUSTOMER AND  
ENVIRONMENTAL  
SCRUTINY PANEL  
- OFWAT LETTER**

By email

Mr David Black  
Chief Executive, Ofwat

12 August 2024

Dear David,

**2024 Price Review Draft Determination: SES Water**

Thank you for giving us the opportunity to offer feedback on the Draft Determination for SES Water. We were pleased to see that the company had received a Standard rating for its draft business plan, despite the challenges of completing business planning during a strategic review.

We cannot comment on the financial modelling that underpinned your Draft Determination. The views expressed in this letter are based on, and reflective of, the combined knowledge and experience of the members of our Environmental and Customer Scrutiny Panels<sup>1</sup>, who bring independence and senior-level expertise to bear in providing constructive challenges to SES Water, as well as the specific knowledge we amassed through our involvement in the PR24 process. We are aware that Ofwat expressed concerns that some independent challenge groups did not maintain enough distance from their companies in previous price reviews. We can assure you that this is absolutely not the case with our panels, and this is evidenced by PwC's assurance to SES Water's Board, which noted the particular robustness of our challenge to the company. What follows is our view and ours alone.

**Executive Summary**

We wish to raise three principal concerns regarding SES Water's Draft Determination:

- the shortfall in funding for investment in the Draft Determination versus SES Water's draft Business Plan for activities which would deliver significant environmental benefits and increase resilience, which customers and stakeholders both expressed support for (and which both our panels support)
- the lack of reference in the Draft Determination to aforesaid customer and stakeholder preferences
- the significant reduction in customer bills which would result from the combined decisions in the Draft Determination. This was not what customers asked for. We believe this risks undermining the company's ability to land future messages (e.g. around PCC reduction and Net Zero)

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<sup>1</sup> Members of the two panels who serve as representatives of the Consumer Council for Water and the Environment Agency did not contribute to this document.

Based on what we have heard from customers and the expert members of our independent panels, we are concerned that there are significant risks to the resilience of water security in the SES Water region under the funding allowed under this Draft Determination.

SES Water undertook the rigorous customer and stakeholder research that was mandated and reached out further through bespoke research. While respondents did express a clear preference for the company to provide support for customers in financial hardship, at no stage did anyone vote for a general bill cut. However, customers did very clearly signal a desire for the company to invest to ensure resilient water supplies for the future.

In SES Water's quantitative survey, over two-thirds of households reported that the proposed plan was acceptable, on the basis that they supported the company's long-term aspirations and believed that the plan focused on the right areas. The qualitative research also showed strong support for the company's environmental proposals, with customers saying that the associated costs were acceptable. Just under three quarters of household respondents (74%) said they found current water bills easy to afford, and there was a clear preference for current bill payers to carry a fair share of the cost of investment to deliver greater resilience and sustainable environmental outcomes, rather than concentrating the burden on future bill payers.

We appreciate that the bill reduction resulting from the Draft Determination is the sum total of a large number of individual decisions on aspects of the draft business plan, rather than a specific commentary on the size of SES Water's current bills; however, the net effect appears punitive, and members of our panels have expressed concern that a bill reduction of this size may result in customers losing confidence in the company's financial management, making it harder to land important messages about reducing Per Capita Consumption now and in future. Above all, though, we are concerned about the apparent disconnect between what customers said and what Ofwat has decided is best for them through the Draft Determination. This appears to go counter to the new Secretary of State's commitment to giving more weight to the voice of the customer.

The position of our two panels is that the company needs to deliver beyond statutory obligations to get on track with the aspirations of the 25-Year Environment Plan, requirements of the Environment Act and wider environmental efficiency targets. We therefore welcome the £5 million environmental enhancement in the WINEP and, in particular, the £3.4 million of investigations into environmental solutions for security of supply and flood risk management. However, this is an incremental step. Given the scale of the pressures revealed through the Regional Water Resources Management Planning and Water Resource Management Plan processes, there is a need for a step change in investment in water security that will not be forthcoming under this Draft Determination. SES Water is pivotal to water security across the region, and the investment required would provide system-level benefits at 'best value'.

We recognise that, for business-as-usual issues, comparability between companies and assurance of efficient delivery is paramount. However, where companies are demonstrably ahead, innovating, and leading the sector, comparing performance and therefore 'allowances' to the median is problematic. A one-size-fits-all approach may inadvertently stifle innovation and hinder the ability of companies like SES Water to lead the industry in key areas. For example, SES Water's pioneering use of Artificial Intelligence including the ability

to reduce the time taken to detect and locate leaks by up to 40% exemplifies the potential benefits of investing in cutting-edge technology.

To improve the supply-demand balance it is clear that ensuring that SES Water can build on its sector-leading, award-winning, asset health work is critical. The proposal in the business plan was seeking to achieve multiple benefits which may not have been fully articulated but are clear to us as scrutiny panels. A recent innovation deep dive revealed that the power of the technology SES Water possesses is far more significant for the future. The ability to not only pre-empt risks but actively engage with customers could be significant. At a macro level, the sector could learn so much more, while at a micro level, local communities would benefit too from subsequent reductions in mains bursts which could lead in turn to reduced pollution incidents, supply interruptions, and customer concerns about their water and water wastage.

We therefore ask you to reconsider the shortfall of £6.75 million from the leakage proposals and £4.4 million from the smart metering work programme. The cost allowances revealed in the Draft Determination fall short in these areas and could have wide-reaching implications; we have concerns, for example, that the cost included across the sector or cost comparisons may not be consistent and this may have had a particularly negative impact on SES Water.

Underfunding these critical areas risks compromising the environment and increasing costs for customers in the future. Current per capita consumption levels are unsustainable, and without sufficient investment to turn this around, SES Water may struggle to meet both existing and future water reduction targets. Furthermore, as water scarcity becomes a more pressing issue, the ability to share water resources between communities will be essential. The amount of investment that SES Water is able to make in AMP8 will make or break the regional plan.

We believe that the proposed bill cut, which is out of kilter with the sector, does not reflect customers' and stakeholders' best interests and is hard to square with the needs assessment. There is considerable hard work ahead for the company in protecting the water supply and enhancing resilience and customer satisfaction. For the sake of customers and the environment, we hope to see some movement in the Final Determination on these grounds.

We would be happy to meet to discuss further with you directly.

Yours sincerely,



Alison Thompson, Chair, Environmental Scrutiny Panel, SES Water



Steve Crabb, Chair, Customers Scrutiny Panel, SES Water.