

ENVIRONMENTAL SCRUTINY PANEL MINUTES

Wednesday 28 April 2021, Meeting via Microsoft Teams

Attendees

Chair: Alison Thompson (AT)

Secretariat: Lorraine Taylor (LT)

External Members:	Trevor Bishop (TB)	Water Resources South East (WRSE)
	Graham Hanson (GH)	Independent Chair, SES Water's CSP
	Karma Loveday (KL)	Independent
	Sarah Jane	Surrey Wildlife Trust
	Chimbwandira (SC)	
	Sarah Holloway (SH)	Independent
	Bella Davis (BD)	South East Rivers Trust
Tom Perry (TP)	Environment Agency	
Alice Laycock (AL)	CCW	

SES Water:	Tom Kelly (TK)	Wholesale Director
	Cat Holland (CH)	Head of Communications
	Alison Murphy (AM)	Water Strategy Manager
	Henrietta Stock (HS)	Energy and Carbon Manager
	Diana Evans (DE)	Compliance and Assurance Manager
	Junji Omura (JO)	Shareholder Representative (Sumitomo)

1 Chair's update

The Chair welcomed all the external ESP members and SES team. She reported for the record that the meeting was quorate and that apologies for absence had been received from Benoit Witchalls (BW), Independent. From SES Water apologies had been received from Ian Cain (IC) and Sarah McLaughlin (SM). The Chair enquired re declarations of interest; no new declarations were provided.

The Chair read out the Statement of Independence:

"Our role on the Environmental Scrutiny Panel is to act independently to advise and challenge the company. We offer our views impartially and constructively for the long-term public interest".

The minutes from the 5 January 2021 ESP meeting were reviewed and formally ratified by the Chair. The Action Log, Challenge Log and Engagement Log were reviewed, and updates provided to the group. The Chair thanked SES Water for updating the Challenge Log and the Committee agreed the responses responded to the challenges provided to date.

Following a recent private meeting of the External Members, the Chair provided a summary of the first year of the ESP Committee. She cited two significant successes: the proposed acceleration of smart metering rollout and the agreement to develop a sustainability/ESG strategy. The Chair also reported that today's meeting would be the last one for GH who is stepping down from the Committee and as CSP Chair. She thanked GH for his support throughout the year and thanked the SES Water team for all proving so open to receiving constructive challenges from the ESP.

2 CEO's update – Performance update

TK provided an update on performance on behalf of IC. He reviewed progress against key performance commitments. With the backdrop of the very challenging year due to covid restrictions, he explained that a number of performance commitments had been impacted:

- Water Quality: this is slightly above target primarily due to an outcome of failures at customers tap.
- Supply Interruptions: slightly over target due to a couple of significant bursts taking place during the year, one of which significantly affected 1,200 properties and comprised of 60% of the lost time over the course of the last year.
- Leakage: looking to come in at 24.5 for the year-end target. A lot of investment is being made to improve and maintain the network.
- PCC: a real challenge for SES this year due to the elevated demand rising from increased home working, currently experiencing is a 6-7% net increase in demand across the area during the third lockdown.
- CMEX: ended the year in 14th place. SES have seen the single largest positive change in customer satisfaction.
- DMEX: challenging time, going through a transition period with another 12 months of work before significant improvements made.
- Softening: challenges with the of the big capital projects at the Elmer Treatment Works but aside from that, performance on softening is on target.
- Risk of Supply Failures: the focus here is around ensuring that at 100% of customers are provided or are supplied by at least two treatment works. There was a target to increase that by about 9% this year, with a scheme ready to go earlier in the year but due to some of the complications and challenges around lockdown this meant work was unable to be completed.
- Regards PCC, this is off target and been significantly impacted by Covid with increased household use. Ofwat have indicated given the impact of the pandemic they are more open to challenges that water companies have seen this year for in period penalties rather than end of period penalties.

KL **challenged** “to what extent had performance compared with expectations as opposed to the targets?”. TK reported that all through lockdown the Company have been focussed on delivering agreed performance commitments as far as possible but knew that PCC would be difficult to stand up to due to the increase in demand with lockdown rules. In addition, TK reported that the Company had hoped to have made more of an inroad regards CMEX and DMEX. DMEX performance however has been impacted by the decision made early in the first lockdown to shut that activity down to reflect government guidance which created delay for some of the planned works.

GH asked, “what is SES’s perspective on penalties and the impact on planned programmes?”. TK reported that programmes had been developed and designed to meet the performance commitments, but that the metering programme has been constrained due to the impact of Covid-19 and not being able to enter customer properties.

The Chair enquired about the progress on WINEP. TK reported that the requirement to deliver

7 investigations is on track currently. The Chair mentioned the WINEP reform process currently underway and encouraged the company to play a part in the WINEP reform consultation process which is due out in the summer.

3 Net Zero Route Map

HS provided an update on the company's Net Zero 2030 Route Map to set out its approach in line with the Water UK Industry Commitment to publish a bespoke company specific approach. She explained that in the absence of a blueprint for the format for publication or indeed how to best build it, there has been a degree of freedom for deciding a bespoke approach. SES is going to produce their routemap online (using a microsite) to keep it more flexible and easier to update.

Summarising the current thinking, HS detailed that there are five areas which the company believes are key to delivering Net Zero Carbon: renewables, water efficiency, energy efficiency, fleet and fossil fuel which will all underpin delivery. Since the last meeting SES (and others including Water UK) have also joined the UN's Race to Zero campaign ahead of COP 26. This will provide the company added impetus on the net zero agenda as there are various requirements to be involved in this process.

The Chair opened the floor for questions and challenges. TB **challenged**: "what the assumption in SES's route map is. How will the amount of green electricity relate to the proportion that's decarbonised in the grid or does the company plan to buy additional green electricity through the tariff? If it is part of the latter, is the company assured that green electricity is going to be available at a cost which is affordable because every sector wants to do the same thing?". HS reported that the company have been purchasing green electricity for a couple of years now and the plan is to continue. Plus, there are a number of sites which have small scale solar installations and there are a couple of sites identified for putting larger scale solar installations on. The company's ambition is to try and do as much as it can on their own sites.

BD **challenged** on the extent of SES's ambition on carbon sequestration and offsetting "how much has SES Water thought about how sequestration will work in practice and are we thinking of doing that a sort of national program or looking at what SES Water can do in their own area?". HS admitted that this is the least well-developed part of the plan. She said she felt there was merit in exploring sustainable agriculture and land management to consider things carbon capture via improving soils.

SH mentioned that there has been a lot happening regarding Net Zero. She encouraged SES to look at Netflix who have a 'net zero plus nature' strategy and have launched it very well, explaining different ways for consumers and stakeholders to engage. SH **challenged** "given things are changing really fast for example science-based target initiatives are being published later this year, is there sufficient flexibility in SES Water's strategy to look at it again?". HS re-affirmed there is flexibility in the strategy.

KL asked for a high-level overview of how the cost management side of things is looking regards net zero. HS reported that there are a number of areas within the route map that SES Water can progress on already in this AMP without the need for a lot of additional funding for example: the fleet electrification it is actually lower cost to move to the electric vehicles, and leasing those and so actually that's something the company have really pushed forward more rapidly because that is something we that can be achieved right now and similar with things like energy efficiency where the company can identify projects that are going to pay back within this AMP so it makes sense to move forward with those as priorities.

4 Draft Smart Metering Business Case

TK provided a summary of the Draft Metering Business Case. Over the past 12 months SES Water have moved their thinking forward, acknowledging the challenge of the ESP as a driver for this. The proposition of smart metering facilitates the unlocking of a number of wider benefits for both the Company and customers which also helps the delivery of performance commitments in this and future Business Plan periods.

A smart metering business case is being put together with high-level drivers which include:

- Increased PCC reduction
- Ability to target customer-side leakage
- Better asset information
- Increased frequency and improved reliability of meter reads
- Improved granularity of customer data
- Progressive tariff structures

The emerging picture of what going (full) smart could bring include:

- Delivering Advanced Metering Infrastructure (AMI) to all metered customers by 2025
- Identifying customer-side leakage, putting AMI in all homes could detect and locate up to 30% of total company leakage
- Customers leaks can be fixed at half the cost
- Collectively could give rise to leakage ODI incentive in the AMP
- Resolving customer-side leakage rapidly could avoid around £1m in leakage adjustments per year by the end of AMP
- Enhancements in approaches to PCC reduction and customer engagement
- Opportunities in C-MeX improvement may give rise to ODI incentives

The current commitment is to provide smart meters to a minimum of 10% of our customers by 2025, this equates to roughly 30,000 smart meters. The evolving business case indicates that a faster roll-out would prove highly beneficial to the delivery of a wider set of performance commitments withing the current AMP.

TB asked if customers would be able to see their usage and to get alerts. He commented that it is good to hear people talking about tariffs and variable tariffs of some description. He **challenged** “what is SES’s thinking regards variable tariffs, given the amount of complexity in terms of customer management and regulatory management and these sorts of changes have to date proved difficult?”

TK reported that from a progressive tariff perspective SES recognise it is a potential mind field, but it does need addressing. AM reported that there are a couple of ways that SES want to be able to communicate with the customers on their consumption so explained they are developing a self-serve portal that the customers will be able to view their bill. On the variable tariff, there are a variety of options that could be explored including seasonal and block tariffs based on the number of people in the home.

AL mentioned that smart metering is still at an early stage in the water industry but there is a potential on the leakage side particularly the customer side leakage. She counselled it is important to focus on what data is needed and how it is gathered, analysed and used and reassuring the customers that their data is safe. She queried would the progressive tariff structure need to be approved by Ofwat.

TK responded by saying that the tariff structure is not something that SES would be able to decide about and would need to engage with the ESP, CSP and CCW to get this signed off. With regards to the data point there are data protection implications of smart metering and SES is taking the learnings from Anglian, Southern and Thames Water in terms of how their

programs are developing to avoid clear pitfalls.

Given the ESP's challenge to SES that the original in AMP, 10% smart meter target was not ambitious enough or line with increasing digital expectations of customers, KL said SES's emerging aspiration for 100% smart meters was fantastic news and thanked SES for listening to the ESP's challenge. KL asked about SES's thinking around business customers, particularly the larger users and empowering them in ways to save water.

TK reported that proportionally SES have about 14,000 business customers verses 290,000 domestic customers means SES could deliver the smart metering to business customers fairly quickly. Smart meters should be something that the water retailer should be offering their customers.

5 SES ESG Strategy: plans and next steps

HS and DE provided an update to the Committee following the ESP's strong challenge for the company to set out a long-term strategy regards ESG and sustainability. Back in February the topic of sustainability was taken to the Board Strategy Day. The unifying features of all strong sustainability strategies is their relationship to the UN Sustainable Development Goals which there are 17. The 17 SDGs are integrated recognising that action in one area will affect outcomes in other areas as well and that development must balance social, economic and environmental sustainability and many companies.

Why is SES developing a sustainability strategy and what the benefits are for SES? A sustainability strategy will allow SES to:

- take a business-wide approach to managing risk;
- co-ordinate activities on climate mitigation and adaptation to maximise efficiency;
- be in the driving seat for conversations with key regulators; and
- improve reputation with all stakeholders.

What does a sustainability strategy look like for SES Water? However, the new company purpose is defined, SES will always have an important role in society i.e., the provision of clean water and that's an essential public service, protecting the environment, taking action on carbon emissions, supporting jobs and diversity and work in the community.

The sustainability strategy should support robust decision making, to making sure that the company protects and value nature, jobs and health whilst ensuring a profitable long-term business. The team have looked at multiple 'capitals' of value (using the six capitals model as a starting point) and they have carried out some initial analysis to consider where SES think they are versus the rest of the water industry and where we might want to be for 2030. Another important area to include in the strategy is our sustainability governance and transparency is a key aim.

What are the next steps to deliver a sustainability strategy? The scope of the strategy making needs to be defined to capture existing activity and which activities SES would like to do and how they will be linked with other areas across the business. Sustainability touches on pretty much every area, so prioritising which pieces to influence and these are shaped next is key.

The team also need to select the best potential frameworks to support our sustainability strategy. Once the scope has been defined, for example the ISO standard on social responsibility might help guide the approach.

Once a strategy has been set, embedding it will be important to understand how SES can best make sustainability a way of working for the business. The company also need to ensure they have the right skill sets for sustainability in place.

Key task next include:

- Develop and publish Sustainability Strategy
- Embed decision making framework in to PR24 process
- Systems based resilience assessment for climate adaptation
- Publish net zero carbon and climate adaptation reports
- Progress reports within net zero carbon strategy
- Implement capital carbon measurement and reporting

TB asked if a Venn diagram could be produced to show how SES see these interrelating as there could some confusion between ESG, sustainability and social responsibility.

SH **challenged** that during the strategy development process for the ESG/Sustainability strategy, what process does SES envision to help shape their strategy?

SJC asked for further clarify about the actual vision SES is trying to achieve. If SES are clear where they are trying to get to its important to realise, workforce planning wise, that skills are going to be an issue and it is not just about knowing you have the right skills in place it is also whether you can get the people with the right skills.

HS and DE reported that SES still have a lot of areas and decisions to flesh out and thanked the ESP for these challenges as they plot next steps.

6 BD challenged about the zones. She said that SES has presented clearly about plans for zones 1-4 but do SES equally have clear idea about zone zero and plan to provide an idea of how much SES are working with neighbouring companies on such matters?

AM responded that zone zero is a nuance of zone 1 in terms of the messaging around the decline in groundwater levels which will impact rivers. It is also worded in a way to show customers in terms of what lies ahead to encourage them to collaborate to reduce the impacts on the environment and prevent the likelihood of customer restrictions in the future.

Regional Resilience Plan (RRP)

The key to this plan is that it is a multi-sector plan and brings into account the needs of farmers and other sectors. It is a new requirement introduced for this period. The plan is long-term covering the period from 2025 to 2100 but is designed to be adaptive to future changes such as population growth and climate change. RRP's form the basis of the next round of Water Resources Management Plans in 2024 aligning with Business Plans. It will also any Strategic Resource Options as part of the new Ofwat gateway process. The first draft of the timeline is being compiled prior to going out for consultation in August 2022.

TB offered to provide additional context to the ESP by correspondence following the meeting.

TP had a question around the existing augmentation specifically sustainability reduction on abstractions influencing chalk streams. The EA **challenges** SES to plan for the future around their sustainability strategy in this area.

7 Consultations (Spring & Summer)

CH provided a summary of the planned activities coming up in the coming months which include engagement on our drought plan, route map to net zero, climate change adaptation and systems-based resilience. This activity on long-term issues of sustainability marks the start of our PR24 engagement programme and both the ESP and CSP will be involved.

8 AOB

The Chair thanked everyone for their input and feedback, especially GH. GH confirmed that this would be his last attendance at the ESP meeting as he is stepping down as CSP Chair. The new Chair will be Steve Crabb. Key elements the CSP are focussing on include the review of year end performance, social purpose agenda, C-MeX/D-MeX and Aptumo programmes.

BD reported that this would be her last attendance at the ESP meeting for a while as she is due to go on maternity leave and that she will work with the Chair to find a deputy for the Rivers Trust for the following year. TK reported that dependent on Covid restrictions, he would like the next meeting in July to be held at Bough Beech so the Committee could experience the education centre.

9 Formal meeting ended and was followed by a private session with external ESP members

This is accurate record of the minutes of the meeting.

Date: 8 July 2021

Name: Aison Thompson

Signed: 

Chair of Environmental Scrutiny Panel for SES Water