

## **ENVIRONMENTAL SCRUTINY PANEL MINUTES**

**Thursday 7 July 2022, Meeting in person and via Microsoft Teams**

### **Attendees**

**Chair:** Alison Thompson (AT) (*Teams*)

**Secretariat:** Lorraine Taylor (LT)

<b>External Members:</b>	Trevor Bishop (TB) ( <i>Teams</i> )	Water Resources South East (WRSE)
	Steve Crabb (SC) ( <i>Teams</i> )	Independent Chair, SES Water's CSP
	Karma Loveday (KL) ( <i>Teams</i> )	Independent
	Cat Moncrieff (CM)	South East Rivers Trust
	Tom Perry (TP) ( <i>Teams</i> )	Environment Agency

<b>SES Water:</b>	Tom Kelly (TK)	Wholesale Director
	Paul Kerr (PK)	Group Chief Financial Officer
	Alison Murphy (AM) ( <i>Teams</i> )	Water Strategy Manager
	Sarah McLaughlin (SM) ( <i>Teams</i> )	Water Strategy Analyst
	Lucy Merritt (LM)	Head of Communications
	Junji Omura (JO) ( <i>Teams</i> )	Shareholder representative
	Daniel Woodworth (DW)	Asset Strategy Manager

### **1 Private meeting**

A private session with external ESP members took place prior to the start of the meeting.

### **2 Chair's Announcements**

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 Sarah Jane Chimbwandira (SC), Surrey Wildlife Trust., Andrew Jamieson (AJ), Surrey Wildlife Trust, Sarah Holloway (SH), Independent, Diana Evans (DE), Compliance and Assurance Manager and Ian Cain (IC), CEO.

The Chair enquired if there were any new Declarations of interest. CM reported that South East Rivers Trust are involved with SES Water on catchment work.

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 Chair provided the following updates to the Panel:

- PR24 Draft Methodology Statement has been issued today citing four main ambitions.
- The National Challenge Coordination Group made up of all Water Company Independent Challenge Chairs is meeting next week. Currently developing Terms of Reference for the Group in close coordination with CCW and Ofwat.
- Growing disquiet is mounting at a national level on river pollution. The Office for Environmental Protection has announced it will undertake a thematic review of water quality. House of Lords Committee just commenced enquiry of Ofwat, Defra and Environment Agency regards sewage issues.

- Regards government, in the Nature Recovery Green Paper, Defra has said it is consulting on options to reform its arm's length bodies and Alan Lovell (former Chair of CCW) is become new the Chair of the Environment Agency.
- Water UK 2050 is launched with two priorities for urgent change. The first is delivering environment impact more efficiently with a strong focus on outcome-based regulation and the second is protecting long-term customer interest with the right investments at the right time.
- Steve Crabb (SC) and Alison Thompson (AT) will be attending the SES Water Board meeting on 20 July 2022 and ahead of the meeting are both having a meeting with Dave Shemmans the new Chairman and looking forward to meeting the new Independent Non-Executive Director Rebecca Wiles who has 30 years' experience in the energy sector at BP.

### Minutes

The minutes from the previous meeting were ratified with no amendments needed.

### Action Log

The Chair reviewed the Action Log:

The Chair asked for an update on progress with WINEP on land-based improvements. SM confirmed all risk assessments have been completed for invasive species for our sites. There are 56 sites that were surveyed in total and sign off has been received from the Environment Agency. The next step is to produce an invasive species plan linking in with the Biodiversity Benchmark work.

SM reported that SES has retained the Biodiversity Benchmark certification at Elmer and this year also achieved certification for Fetcham. Currently work is underway to develop a site management plan for the Bough Beech area. Once the site management plan has been produced, species specific surveys will be carried out ahead of planned benchmarking in March 2023.

A member probed about the extent of benefits SES is enjoying from the biodiversity interventions. TK reported that SES are in the process of putting together a two-page direction statement around biodiversity which will be shared with the ESP for critique next as it will link to biodiversity net gain, WINEP work and reflect on the Long-Term Delivery Strategy (LTDS).

**Action: TK to circulate paper to ESP for comments**

AM reported that guidance from the EA had been received on the WINEP programme. The Company have engaged Atkins to assist with the cost benefit analysis work. There is a meeting with Ofwat in September ahead of the submission in November.

The Chair asked for an update on the Bough Beech Transformation project. TK reported that work is progressing, and conversations continue to move at pace with Bore Place. The Masterplan has been amended following feedback from Sevenoaks District Council to help ease the way through the planning process. A launch event is planned for October which will coincide with 'Apple Day' a local celebration, which ties in well given there are various orchards on parts of the nature reserve. Next steps are to put in place a structure around the agreement and partnership that we are looking to create with potential 25-year agreements with the Sailing Club, Angling Club and with the charity around what we are looking to do. TK reported that the first tranche of land is being transferred back to SES and therefore onto Bore Place to start a biodiversity citizen science experiment. SES is also moving ahead with plans for a solar array for Bough Beech Treatment Works. The Chair probed on capacity to maximise the benefits of this partnership. TK replied that SES is about to appoint a resource into the team to help lead

with the development of this work. There will be a more formal update at the meeting in October. The Chair said that with the right resources and funding vehicles in place the Bough Beech Transformation Project would be a very powerful flagship initiative.

### Challenge Log

The Chair summarised the items on the Challenge Log. The Chair raised a question on behalf of Sarah Holloway who had sent apologies regarding Challenge 6 on the Challenge Log on the long term ESG Strategy and requested an update on how this will be resourced. TK reported that an update on the ESG Strategy will be covered as part of the PR24 item on the agenda and this should then answer SH's question.

CM asked a question in relation to non-household water sector use regarding managing down water usage. TB reported that WRSE have had various conversations with stakeholders as it's quite complex. SM reported that SES has visited 180 schools since October 2021 and the average saving per school is about 2,000 litres per day. There was one school with 18 leaking toilets and water saving devices were fitted. There are about 120 schools left to visit and SES is liaising with the Department of Education to get access to these schools. After reaching out to schools, there are plans to visit leisure centres given water use then pubs.

### **3 Leakage Deep dive**

Daniel Woodworth (DW) joined the meeting to provide the Panel with an update on Leakage and Strategic Network Projects.

Given the papers were taken as read, the Chair asked if anyone had any questions for DW before he started with his presentation to steer the discussions efficiently. The Chair asked about the risk of diminishing returns from the new strategy? DW agreed that this was a possibility and that this question would get answered in more detail as he went through the presentation.

DW set the scene in managing leakage by summarising the acronym 'PALM': Prevent, Aware, Locate, Mend. SES Water are making good progress across all 'PALM' areas. In terms of targets and aims this AMP of a 15% year on year reduction in leakage. This has translated in a three-year rolling term of 12.4% reduction. The company therefore took the challenge and have just completed the second year. At the end of year 1 the pandemic impeded progress not least because it fundamentally changed the way water was used in patterns and made it difficult to calculate leakage and very difficult to progress with our project work. We ended year 1 of the AMP with an actual annual figure of 25 against the predicted of 24.1 ml/d. However, year 2 resulted in improved performance, whereby SES achieved its lowest ever recording of 21.1 ml/d. DW summarised how SES managed to achieve this from his perspective:

- Hard work and commitment from everybody working together – *introduced nightshifts, improved processes and working methods*
- Being bold with projects and believing in their success (iDMA) – *trailing technology*
- Fortunate with the weather – *lack of winter freeze/thaw, low burst, and leakage outbreaks*
- Being different from the rest of the industry – innovating! – *introducing a new Customer Side Leakage Policy*

**Action: DW to circulate CSL policy to ESP and CSP for comments**

Due to achieving the lowest ever achieved target, leakage targets have been rebased for the AMP and SES are seriously thinking about outperforming during the remaining AMP.

DW went on to summarise how the 2022/23 leakage target will be met and in answer the Chair's earlier question of diminishing returns, DW agreed that diminishing returns were a factor as there would be as there are only a certain amount that SES can do to be more efficient i.e. via Active Leakage Control (ALC) – continuing to drive efficiencies and the way leaks are found as well as embracing new technology and then having sufficient resource to respond quickly will become increasingly important.

SC provided some feedback on being a Thames Water customer saying that he experienced a leak on his supply following the installation of a smart meter and that Thames Water do not have a process in place for helping customers to detect when their usage is unexpectedly high other than through the normal billing route.

DW went on to summarise SES's Intelligent District Metered Areas (iDMA) journey:

- June 2019 – February 2020: interviews for intelligent network software and system configuration trials
- March 2020 – December 2020: Trial phase of 29 District Metered Areas (DMAs) in 4 reservoir zones
- August 2020 – January 2021: scaled up to whole company 302 DMAs
- March 2021 – February 2022: configuration phase, analysis of alarms, settings development
- February 2022: Control Room training
- March 2022: Go live with 24.7 alarm monitoring on 7 March

SW explained that the intelligent network comprises a series of products sourced from project partner, Royal Haskoning, which boasts an App suite including Burst Alerts, Burst find and Aquasuite analytics.

TP asked if the burst alert includes the process of reporting a pollution incident to the right people. DW confirmed that yes, there are processes in place for reporting pollution incidents.

DW summarised the DMA Asset Health approach. DMA Asset Health is a holistic approach to network asset management and optimisation and the key drivers are to reduce leakage through network calming, pressure optimisation and targeted asset renewal. SES has partnered with Echologics who carry out mains condition assessments, Atkins who carry out holistic analysis of all data sets, field testing and pressure logging and Clancy Docwra who are delivering the engineering support for the project.

The benefits from the schemes implemented so far have resulted in 0.7 ml/d reduction in leakage equating to 20% reduction on average in those 8 areas. Going into PR24 the idea is that this information and data will be SES's main approach to targeting asset renewal in future.

TB thanked DW for the fantastic presentation and asked if the company has a view on when we are going to max out on what we can do with ALC with pressure and with customers cost effectively and is there a point where mains replacement takes over. DW reported that we are very efficient at ALC and are maxing out on that with currently technology, however SES has surprised itself with pressure management. From AMP9 onwards SES will need to be targeting asset renewal in discussions with Ofwat.

The Chair said there was a need to understand the real opportunities for investment at the right time, combined with customers' needs towards a leadership approach around this. She said understanding the aggregated 'wheel of opportunity' from the approach presented and plan for moving forward on this would be important.

**Action: DW/TK to provide 'wheel of opportunity' and plan on leakage to counteract**

## **concerns about diminishing returns for ESP review.**

KL asked a question about the nature of targets for this AMP and whether they should continue to be separate leakage and demand reduction targets or whether they should be combined into a total demand commitment and what was the Company's view on that. AM reported that along with other companies, we have been pushing for a combined demand or even extraction target. To move away from PCC would be a good step to take.

TB agreed that the target should revert to demand/extraction but there will still be a need to have sight of the PCC data.

## **4 CEO/SLT update**

### Summary of Performance for AMP6 and AMP7

TK provided a summary of progress in AMP6 and compared to AMP7.

In AMP6 three quarters of performance commitments were met (76% in years, dropping slightly to 71% in year 5). Overall performance commitment delivery over the five years (all PCs, all years) was 75%.

In AMP7 so far, delivery of performance commitments was 56% in year 1, increasing to 64% in year 2. Overall performance commitment delivery over the two years has been 60%.

In AMP6 the year ended with a few delivery challenges i.e., C-Mex, complaint levels, pollution incidents.

Interestingly TK explained that Supply Interruption targets are consistent with levels across the AMPs. Taste, Odour and Discolouration target across the AMPs is very subjective.

### Comparison of AMP7 year 1 to Year 2:

- Water Quality – leading in sector
- Supply interruptions – in top 2 or 3 in sector
- PCC - went from 163.4 to 151.13 and our rolling average is 152.7
- C-Mex/D-Mex – still a challenge but improvements made - improved D-Mex by generating about three times the level of improvement in our scores than anybody else but there is still work to be done.
- Void properties – 4.1% was the average for last year but no dropped to 2.2%

With regards to penalties, saw a net impact of £1.8m in AMP6 which was largely driven by C-Mex which was offset by good performances in supply interruptions. In year 1 of AMP7 SES were at £1.1m and £100k in year 2.

PK reported that SES is currently in award territory of £330k. Regulatory Accounts will publish on 15 July 2022.

SC requested an update on progress with complaints. TK reported that they have improved but are still slightly off track and will be picked up as part of the CSP meeting.

KL asked for clarity if there are any other metrics where SES show where we are doing well and not so well. TK to review information and report back.

## PR24 update

PK reported that he had an embargoed call with Ofwat on the evening of 6 July to discuss the issuing of Ofwat's Draft Methodology Statement and it was issued its Draft Methodology Statement this morning. Ofwat have been very clear on classification of Business Plans and have put some substantial incentives in place.

KL said that she will be reporting on the Draft Methodology Statement and will share the output.

PK reported Ofwat have been very clear in the classification of business plans and implications for being a high performing business plan versus an inadequate business plan. There are four categories and some substantial incentives whether you produce an exceptional business plan versus an inadequate one. For an exceptional plan up to 30 bonus points could be awarded whereas for an inadequate plan 30 bonus points could be deducted.

There are 10 common PCs for water only companies and some of those are not a surprise i.e., focusing heavily on environmental factors including biodiversity. The combining of leakage and PCC business demand. Ofwat reiterated that they are not expecting more than 2 or 3 bespoke performance commitments. SES has signalled early on that water softening will need consideration. There are two open challenge sessions that Ofwat want companies to have next year with customers which Ofwat and CCW will attend.

KL pointed out the number of common PCs that are focused on environmental metrics are significantly larger than previously. There are super rewards for those companies that push the boundaries. Around financial resilience, Ofwat are going to be keen to emphasis this time round, lower notional gearing. The open challenge sessions are brand new. There will be no automatic indexations on retail controls. There will be a continuation of Innovation funding and ring-fenced funding for strategic water resources.

PK reported that there is a two-month consultation process until 7 September 2022 and the ESP/CSP will have a chance to feed in their thoughts to SES's reply.

## Long Term Delivery Strategy

PK reported that SES is continuing with this work on internally and are meeting with the Board in September 2022. There is have a two-stage approach to developing the long-term delivery strategy after the Board meeting in September SES will circulate a document likely to be around 15-pages that is more than a strategic delivery statement but not quite the full Long-Term Delivery Strategy which Ofwat will look for on 23 October 2023.

SES has working with the ESG Committee on our Materiality Assessment and has engaged Sphera to carry out stakeholder interviews.

The Chair queried to what extent SES intend to carry out a Double Materiality Assessment, which is considered best practice as it focuses not just on factors that impact SES but how SES impacts on the world. PK reported that we are going through this with the ESG Committee later today. The outcome will be shared with the ESP.

TK responded to SH's challenge by sharing that the resourcing of ESG related activities had moved forward, we have plans to restructure the business with an internal lead role in place and working to that lead there will be an external appointment into the team to work on this area. Additionally, external supply chain partners will be helping.

## Headline on Risk and Opportunities

The Chair asked PK and TK about the baseline perspective with barriers and opportunities. PK reported there are opportunities in areas where there is a pre-existing strong base i.e., network and iDMA work. Where this is a level of stability, other areas will be prioritised like above ground technologies.

TK referenced the Common Reference scenarios in the LTDS i.e. citing the company is behind the curve on digitisation of the customer platform but could be an opportunity in terms of benefits. TK suggested that regards climate change, SES is fortunate to some extent by virtue of the dependent on winter rainfall.

TB asked if the Company is happy with the core Pathway approach Ofwat have set out. PK reported that he has no overall concerns with the core pathway. TK reported that he is entirely comfortable with it as it's what SES had asked for.

## **5 AOB**

### Update from Steve Crabb, Independent Chair of CSP

SC provided a summary from April's CSP meeting.

- The Company are continuing to support their vulnerable customers.
- C-Mex is still a challenge, following Qtr. 4 results the Company is lying in 12<sup>th</sup> position on the table but overall, for the year in 15<sup>th</sup>.
- The Panel were provided with an update on Purpose, LTDS and future land use at Bough Beech.
- The next meeting on 28 July will look at the UMP programme and deep dive on vulnerable customer support. It's estimated that the average prepayment customer will have to put £400 a month on their prepayment meter to heat their homes.
- The Company have recruited two new leads for Affordability and Vulnerability within the Retail Team.

AT reported that there will be a joint ESP/CSP meeting in September with KL involved to look at joint preconceptions, hopes and ideas on the LTDS – likely to be 15 September 2022. AT met with the technical author of BSI standard on Purpose Cambridge University which will be published next week. AT to circulate further information.

TK asked if the ESP were happy with the focus areas for the future ESP meetings.

**Action: AT to circulate those thoughts to the Panel for comments.**

The next meeting is on the Thursday 6 October 2022 will be held at Bourne Hall in Epsom and will include a river walk with a focus on abstraction.

**This is accurate record of the minutes of the meeting.**

**Date: 10.10.22**

**Name** Alison Thompson

**Signed**

*AJ Thompson*  
Chair of Environmental Scrutiny Panel for SES Water