

ENVIRONMENTAL SCRUTINY PANEL MINUTES

Tuesday 26 April 2022, Meeting in person and via Microsoft Teams

Attendees

Chair: Alison Thompson (AT)

Secretariat: Lorraine Taylor (LT)

External Members:	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)	Independent
	Cat Moncrieff (CM)	South East Rivers Trust
	Tom Perry (TP)	Environment Agency
	Andrew Jamieson (AJ)	Surrey Wildlife Trust (Deputy for CEO)
	Sarah Holloway (SH) (<i>Teams</i>)	Independent

SES Water:	Tom Kelly (TK)	Wholesale Director
	Paul Kerr (PK) (<i>Teams</i>)	Group Chief Financial Officer
	Ian Cain (IC)	CEO
	Alison Murphy (AM)	Water Strategy Manager
	Diana Evans (DE).	Compliance & Assurance Manager
	Sarah McLaughlin (SM)	Water Strategy Analyst
	Lucy Merritt (LM)	Head of Communications
	Junji Omura (JO)	Shareholder representative
	Jon Whitehead (JW)	Treatment Works Manager

1 Site visit

Claire Gibbs from Surrey Wildlife Trust was invited to join the meeting as a guest to provide some background to the biodiversity benchmark process which has taken place at Elmer and Fetcham and has resulted in both sites being awarded a Biodiversity Benchmark Award.

The Committee went on a site visit of Elmer and Fetcham to groundtruth the biodiversity work.

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 who had sent Andrew Jamieson as a deputy.

The Chair enquired if there were any new Declarations of Interest. The Chair reported that she is shortly joining Cambridge University. She is taking up a role as Academic Tutor for Executives completing post graduate sustainable business qualifications with the Cambridge Institute for Sustainability Leadership.

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: Methodology Statement due out for consultation in July. Sets the rules of the game. Government has appointed Ian Coucher, former CEO of Network Rail and

Atomic Weapons Establishment as Jonson Cox's replacement as Chair of Ofwat. David Black now appointed as CEO.

- Politically, focus for all the regulated utilities will be on reconciling the tension between growing environmental pressures and rising cost-of-living ahead of General Election.
- Environmentally, key context is implementation of Environment Act. Raft of consultations now out, including the Nature Recovery Green Paper: very narrowly defined in scope around the future of site and species protection – but could be much wider in practice, based on the top and tail to the Green Paper. George Eustice's vision for post-Brexit approach to protecting and improving the environment. Also a hint in the Green Paper that Defra wants to review its institutional architecture and review the Arm's Length Bodies.
- Other key aspects of post-Environment Act implementation are:
 - Office for Environmental Protection now formally established and gearing up for review of the 25 Year Environment Plan to inform Defra's second Environmental Improvement Plan (which it is required to produce in 2023).
 - Nationally binding targets also out for consultation. This is the basis of the framework for translating the 10 25Year Environment Plan goals into targets and mechanisms that drive the environmental improvement on the ground.
- For the water sector, the politics of all of this is still hugely coloured by the public campaigns on storm overflows and river pollution will nonetheless colour the approach the EA and Ofwat take to defining environmental ambition and obligations for all water companies at PR24. EA has its new WINEP methodology, which is supposedly more outcome-focused and will enable companies to take a more strategic approach to determining what success looks like and working in partnership in their catchments. Government's proposition for eliminating storm overflows out for consultation and the proposed water quality target also reflects focus on reducing point-source pollution.
- So, what does this mean, perhaps even greater expectations for water companies from regulators and citizens? However, no obvious new financial levers perhaps to pull to finance greater outcomes.
- Internally, Jeremy Pelzcer has completed his 9 years at SES Water and Dave Shemmans has replaced him as Chair. Meeting coming up with Dave this month and a joint meeting with Kate, Tom and Steve. Externally, Steve Crabb and Alison Thompson have been asked by CCW to join National Challenge Coordination Group.

Minutes

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

Action Log

The Chair reviewed the Action Log, the only updated needed is in relation to WINEP which TK will provide an update.

Challenge Log

The Chair summarised the items on the Challenge Log. Conscious that the Panel need to restart recapturing the impact of interventions and suggestions especially around materiality and the more dynamic updates. **Action:** AT and TK to discuss.

3 CEO/SLT update

Quarterly performance review

IC provided an update on the year-end performance against current performance commitments.

Performance this year has been an improved one versus the first year's performance of the AMP. SES's first priority has been taking care of people and customers/community through the pandemic and the look ahead is very challenging particularly from an affordability point of view for the organisation and external pressures continue to provide a high level of volatility.

The strong areas of performance which set SES aside from other companies includes supply interruptions where SES has had a particularly strong year putting the company into the territory of Reward as opposed to a Penalty. Support to vulnerable customers has retained a strong level of integrity.

CMeX and D-Mex are still a challenge however our C-MeX score for the last quarter sees a move from 15th position to 12th.

The company have had some challenges around managing cash debt and void properties from customers in the last couple of years, however, SES is overcoming those issues and starting to collect debt in a much more structured way.

Leakage has been outstanding and the SES continues to implement the new Artificial Intelligent network operations which is down to the good work of Daniel Woodworth and his team. AI is starting deliver benefits including the biggest single reduction in leakage this year.

Regards financial penalties, these are predicted to be lower, approximately £300k-£400k, this year compared to the previous year which was approximately £1m.

Aptumo billing system remains stable following the first successful completion of an Annual Billing cycle.

Health and Safety has seen more focus this has received external recognition for the company.

Looking ahead the company is focussing on the economic situation with the increase cost of living, issues within the supply chain, increase in RPI which is affecting SES.

KL asked how the company is looking at PCC in the long-term? IC reported that there is a lot of work to do and Smart Metering will be a big part of that. AM reported that we are focussing on high users which many of them will have leaks, also focusing on those with lower consumption which has then increased and the roll out of the online portal.

IC provided an update on the Purpose work which has not progresses as quickly as the company would have liked. There is an aspiration to build deeper relationships in the community. An SLT workshop was held in March and another workshop arranged for 10 May to share and review a series bold outcomes working back from 2050. Some of the bold outcomes include reducing water consumption, eradicating leaks and supply interruptions, eradicating pollutions and being climate positive. Also, being on the school curriculum in every school in the region to discuss environment and water usage. The purpose is starting to be taken very seriously and is now starting to be embedded in Board conversations, in day-to-day communications and is now starting to influence the design and development of the new long-term strategy.

Forward look re: PR24

PK provided a summary of the company's approach to PR24 including Board engagement and where the ESP and CSP will be involved in the process.

Since the previous ESP meeting in January, the first PR24 Steering Committee meeting has taken place and we have workstreams in place and up and running.

Alignment of external support is key and SES have therefore engaged with a number of economic advisers and consultants to support PR-24 process including: CEPA, NERA, a director from BRG and Penny Hodge from Create 51.

Two things to focus on are Long Term Direction Statement (LTDS) and Environmental Social Governance (ESG) materiality. It's rapidly becoming evident that the long term delivery strategy and the delivery plan that's associated with that which kind of form this first chapter of the business plan and kind of drive everything is, is garnering a lot of thought and conversation across the industry.

Formal approval about the plans for delivering the LTDS and long term delivery plans will be discussed at the forthcoming PR24 Steering Committee meeting on 29 April. SES will be working up to October to produce a strategy document which we will be asking the ESP and CSP to review.

ESG strategy will be key in this overall company strategy and ultimately the delivery plan. SES has engaged a third party, Sphera, to carry out an external materiality assessment on our plan and they will engage key stakeholders to complete this as a foundational piece of the strategy.

TP asked how is SES Water going to make decisions on what to include, how far to go and how to base an understanding of what the company thinks Ofwat will fund. PK reported it's a difficult question to answer. SES will need to see strategically about what success looks like by 2050 and then work our way back in five year chunks to see what is achievable and may perhaps be able to implement some goals in the first 10 years. TK reported that following feedback from the PR19 process, he welcomes the long-term approach and in fact explained that the company had requested that Ofwat took a longer term view. A key challenge for SES is softening. As the only water company in the UK that has a legal obligation to soften, it is a huge cost and has a huge impact on the environment and necessitating significant chemical and energy inputs.

SC reported that he is pleased with the LTDS/SDS approach but conscious that moving forward when goal posts are still moving and there is no clarity yet from Ofwat as to what they are going to require. The customer focus groups which took place summer were really good and he would have expected them to have continued going forward.

CM asked what is meant by ESG materiality and the impacts to the wider society and environment. PK reported that materiality is an assessment of priorities that the company will need to prioritise such as water poverty, making sure the company pays taxes and net zero carbon. IC reported that SES needs to look at stakeholder benefits for example working with energy companies to eradicate fuel poverty alongside SES's need to reduce water waste. The investors are aligned with Purpose and ESG plans.

4 Biodiversity deepdive

TK provided a summary of the Biodiversity Action Plan. The primary purpose of this item being on the agenda was to gain feedback on the Biodiversity Action Plan and to see whether it was stretching enough to meet the requirements of what we need to do as a business. Alongside

the Action Plan a Bough Beech and Fetcham Springs Masterplan has been developed and looking at what the natural extensions of the biodiversity benchmark activity might be. TK asked for views from the ESP.

AT acknowledges that it's brilliant that SES are the first water company to receive a biodiversity benchmark. However emphasised the need for the company to think beyond site scale to landscape scale nature recovery and biodiversity gains. For example, is there an opportunity for SES to partner up with other local businesses to see what they are doing with regards to biodiversity, i.e. Gatwick Airport have biodiversity benchmark so asked, could it worth reaching out to Gatwick about forming a partnership around biodiversity?

TP mentioned that there will be opportunities in WINEP and catchment schemes and working with farmers and businesses.

AJ mentioned that the benchmark is site specific but the landscape scale is critical to make biodiversity work. TK reported that landholdings as a business is about 850 acres of which nearly 600 acres is at the Bough Beech site and 65 acres at Fetcham Springs. At Bough Beech SES are working with Bore Place on farm clustering and getting 2000 hectares together.

CM is aware that there is a lot of work around biodiversity but not actually capturing it and should it be included in the WRMP and Business Plan to improve benefits.

Both TP and SH made reference to gaining customer buy-in for behaviour changes towards biodiversity and aligning with our Purpose work.

In summary, key points:

- Building on existing plans
- Identifying opportunities around landscape scale biodiversity
- Assessing whether or not there are opportunities to engage with local companies and authorities
- WINEP and catchment based schemes
- Ensuring the company is capturing and therefore getting full benefit for the work already doing to promote biodiversity
- Strengthening the engagement and awareness raising with local communities

TK to provide a high level summary action plan for the ESP to review again.

5 AOB

Update from Steve Crabb, Independent Chair of CSP

SC provided a summary from January's CSP meeting. The CSP did a deepdive in debt and encouraged at what the company are doing to identify those customers who are able to pay but are choosing not to pay and also to put those customers who are in genuine financial hardship on the softer debt path and providing support. Continued progress on the implementation of Aptumo. CSP are reviewing ToR and removing the regulatory reference and looking at membership of the group.

As AT mentioned earlier, ESP and CSP Chairs have been invited to work closely with Chairs of other Challenge groups from across the industry call COG (Central Oversight Group) in coordinating customer and stakeholder engagement and research as part of PR24 to ensure that it is done in a systematic way and pleased to see that Ofwat and CCW have acknowledge that the ESP and CSP have a role to play. The first meeting of this group has already taken place and 1:1s are taking place.

The next meeting is on the Thursday 7 July 2022

This is accurate record of the minutes of the meeting.

Date: 7.7.22.....

Name: Alison Thompson.....

Signed: 

Chair of Environmental Scrutiny Panel for SES Water