

A large circular graphic composed of a dashed white line. Inside the circle, the text "APPENDIX SES012 EXTERNAL ASSURANCE" is centered in a bold, dark blue, sans-serif font. The space between the dashed line and the center is filled with various white line-art icons representing different aspects of water management and sustainability, such as a person with a headset, a globe with a thermometer, a hand with a water drop, a group of people, a leaf, a person with a briefcase, a glass of water, a scale, a target, a water tap, and a "net zero" icon with a leaf. The background of the entire page is a gradient from dark blue at the top to a lighter teal at the bottom.

**APPENDIX**

**SES012**

**EXTERNAL**

**ASSURANCE**

# Contents

---

A. LTDS Technical Assurance (Copperleaf)	3
B. PR24 Technical Assurance and Cost Adjustment Claims	27
1. Technical Assurance Report	28
2. Cost Adjustment Claims	37
C. PR24 BP and LTDS Board Assurance - PA Consulting Letter to the Board	40
D. PR24 BP and LTDS Board Assurance – PA Consulting Report for the Board	49
E. NERA Assurance Letter on Financeability and Financial Resilience of the PR24 Business Plan	124

## A. LTDS Technical Assurance (Copperleaf)



# SES PR24 Business Plan

Technical assurance report - Copperleaf

September 2023



Mott MacDonald  
Victory House  
Trafalgar Place  
Brighton BN1 4FY  
United Kingdom

T +44 (0)1273 365000  
mottmac.com

SES Water  
London Road  
Redhill  
RH1 1LJ

Mott MacDonald Limited. Registered in  
England and Wales no. 1243967.  
Registered office: Mott MacDonald House,  
8-10 Sydenham Road, Croydon CR0 2EE,  
United Kingdom

## Issue and Revision Record

Revision	Date	Originator	Checker	Approver	Description
A	24/08/2023	Elin Williamson	Andrew Heather	Andrew Heather	First issue
B	28/09/2023	Elin Williamson	Andrew Heather	Andrew Heather	Second issue

**Document reference:** 100416626-001 | PR24 Copperleaf | B |

**Information class:** Standard

This document is issued for the party which commissioned it and for specific purposes connected with the above-captioned project only. It should not be relied upon by any other party or used for any other purpose.

We accept no responsibility for the consequences of this document being relied upon by any other party, or being used for any other purpose, or containing any error or omission which is due to an error or omission in data supplied to us by other parties.

This document contains confidential information and proprietary intellectual property. It should not be shown to other parties without consent from us and from the party which commissioned it.

# Contents

## Executive summary 1

## 1 Summary of findings and recommendations 6

- 1.1 Deliverability and uncertainty 6
- 1.2 Protection of customer funding – previously funded activity 6
- 1.3 Protection of customer funding – future funded activity 6
- 1.4 Customers views influencing your plan 7

## 2 Conclusion on Board assurance checklist points 8

### A. Detailed findings 1

- A.1 Your overall investment planning process 1
- A.2 Copperleaf inputs and outputs, optimisation, final investment decision making 2
- A.3 Approach to delivering common reference scenarios 7
- A.4 Approach to justification of enhancement 8
- A.5 Board assurance checklist point: The needs for enhancement investment are not influenced by non-

compliance or non-delivery of programmes of work (both base and enhancement) that customers have already funded 9

A.6 Board assurance checklist point: The options proposed within the business plan are the best option for customers and a proper appraisal of options has taken place 10

A.7 Board assurance checklist point: The plan includes price control deliverables covering the benefits of material; enhancement expenditure (not covered by performance commitments) 11

A.8 Board assurance checklist point: The expenditure proposals reflect customer views, and where appropriate are supported by customers 12

### B. Document references 13

# Executive summary

## Assurance of PR24 investment planning using Copperleaf

We understand that you are using the Copperleaf system to forecast future investment needs and support your business plan. You asked us to provide assurance of your approach, with reference to Ofwat's PR24 final methodology (PR24 FM), including the specific expectations of the Board Assurance Statement.

We propose the following scope of work and format for our assurance report.

### The Copperleaf system: out of scope

You do not require us to review the Copperleaf system itself.

### Cost estimates: out of scope

We understand that you do not require us to review cost estimates, which are being assured by others.

### Approach to developing your business plans

We will develop an understanding of your approach to developing your preferred (or "optimised") plan, and how the needs and service impacts for each area have been quantified. We will also assess the extent to which the company's customer engagement and research has been used to inform the plan.

Having regard to Ofwat's tests for board assurance of costs and outcomes (detailed in Table 1 below, 4 of the 8 board assurance points), we will conduct a short review of:

- Your overall investment planning process.
- Inputs to and outputs from Copperleaf, sampling from data collection through to the final investment decision, including options and solution types for consideration.
- Approach to developing common reference scenarios.
- Approach to and justification of enhancement.
- Whether each of the points in the checklist are addressed, and if not, what action is underway to address them.

We will provide feedback summarising our findings and any material issues to be addressed.

**Table 1: Ofwat PR24 Final Methodology - Checklist (4 of 8)**

<b>Board assurance tests</b>	
<b>Costs and outcomes</b>	
	The needs for enhancement investment are not influenced by non-compliance or non-delivery of programmes of work (both base and enhancement) that customers have already funded;
	The options proposed within the business plan are the best option for customers and a proper appraisal of options has taken place;
	The plan includes price control deliverables covering the benefits of material; enhancement expenditure (not covered by performance commitments);
	The expenditure proposals reflect customer views, and where appropriate are supported by customers



# 1 Summary of findings and recommendations

Overall, the findings of the assessment met the test areas. There was evidence of a clear process and use of a value framework alongside incorporation of the Ofwat recommended common reference scenarios for adaptive planning. The approach demonstrated to us showed that the use of Copperleaf has been developed within SES through tests around value calculation and use of metrics to ensure realistic and reasonable measurement of value is taking place. It was evident that the development of the Long Term Delivery Strategy has been through an iterative and rigorous process using subject matter experts with Copperleaf supporting the decision making with optimised outputs.

There are no areas of major concern within the audit, there are five areas with recommendations. Two of these relate improvements for future, two relate to items which it is understood are already in plan to be addressed over the coming weeks prior to the business plan submission.

## 1.1 Deliverability and uncertainty

We found that deliverability of the options in the plan has been well considered through the planning process.

**Recommendation:** We recommend that an assessment of the deliverability of the finalised overall plan should be made prior to plan submission and included in your narrative. It was discussed that this is planned for the coming weeks prior to plan submission.

Consider including in this assessment resource capacity, capability both internally and in the supply chain. Company financeability and customer affordability looking at bill impact based on existing work which evidences customers willingness to pay.

We found that the approach to reviewing resource for the delivery of PR24 was acceptable.

**Update 28/09/2023:** In our follow up assessment, we can see that deliverability of the plan has now been considered and referenced within the business plan. This includes assessment of deliverability risk and mitigations at a programme level and review of key delivery risks and mitigations at a business level.

**Recommendation:** We recommend that if/when Copperleaf is taken into business as usual(BAU) use, it would be important to include resource planning in the system or specifically within the planning process.

## 1.2 Protection of customer funding – previously funded activity

We understand that the approach taken to reviewing previously funded enhancements is adequate for the size of the programme. It was highlighted that there is one area of activity (Kenley and Cheam temporary UV treatment) that has been funded within AMP7 but not delivered.

**Recommendation:** We recommend that the funding approach for Kenley and Cheam UV be made clear within the enhancement case. Clearly referencing AMP7 funding not used, scope not delivered and how AMP8 funding proposal addresses this.

**Update 28/09/2023:** In our follow up assessment, we can see that this has now updated, AMP7 spend is separated from AMP8 and used towards the original outcome in the AMP7 period.

## 1.3 Protection of customer funding – future funded activity

We understand that development of PCDs was still in progress at the time of the audit. Our remit was to check they are in place for material items.

**Recommendation:** We recommend that there is a final review of all material enhancement case expenditure and there is an assessment as to whether a

PCD should be introduced. It is understood that this is planned to take place. Consider introduction of a PCD for the delivery of the Household and business smart meter roll out. Due to the high value of this programme as a proportion of the business plan, introduction of this PCD would ensure customers funds are protected against non-delivery of the programme.

**Update 28/09/2023:** You have shown us that you have a mechanism in place to assess the need for PCDs for the material values in your plan.

## 1.4 Customers views influencing your plan

We found that the approach to including customer views into the PR24 planning process was evident and acceptable.

**Recommendation:** We recommend that if/when Copperleaf is taken into BAU use, it would be important to incorporate customer views within the value framework through the value scoring in the system or specifically within the planning process.

## 2 Conclusion on Board assurance checklist points

**The needs for enhancement investment are not influenced by non-compliance or non-delivery of programmes of work (both base and enhancement) that customers have already funded**

**Conclusion:** Our assurance assessment reviewed the approach to understanding enhancement schemes previously funded and how these were aligned against future funding requests. Our findings were that your process for review of expenditure within your investment plan was acceptable. We have highlighted one area relating to AMP7 funding allowance for temporary UV equipment for Kenley and Cheam, we **recommend** this is addressed within the expenditure reconciliations and narrative presented within your business plan submission to Ofwat. This will ensure transparency of items which have been previously funded by customers.

In our follow up assessment (28/09/2023), this recommendation has been met with a clear approach to AMP7 funding being spent within AMP7 for this scheme.

This assurance did not extend to the assessment of performance commitment outcomes funded by customers within AMP7.

**The options proposed within the business plan are the best option for customers and a proper appraisal of options has taken place**

**Conclusion:** We found that your approach to options appraisal presented a lean methodology. The approach shows the prioritisation of maintaining service and delivering regulatory and statutory drivers. This was demonstrated to us through the use of your value framework, which presents an overall monetised value for all options. Your approach to options generation and decision making using workshops, involving a wide level of

understanding and capability, in our view this has led to a robust value driven approach to option selection incorporating customer views in final decision making.

Your process and your use of value measures through your planning process evidences a best value approach to development of your business plan.

**The plan includes price control deliverables covering the benefits of material; enhancement expenditure (not covered by performance commitments)**

**Conclusion:** At the time of our audit you were finalising your proposals for PCDs. We propose to review this in our review of your final business plan.

In our follow up assessment (28/09/2023), you described that there is now a process to assess the need for PCDs. You explained that through this process there are mechanisms in place to protect customers for all material enhancement expenditure through PC, PCD or legal instrument.

**The expenditure proposals reflect customer views, and where appropriate are supported by customers**

**Conclusion:** Our assessment reviewed how customer feedback has been incorporated into your business planning process and proposed expenditure for AMP8. We found that your investment planning process incorporated customer consultation feedback. This was demonstrated to have been included through the WRMP consultation process and customer engagement during the business plan development (June '23). It is clear that rational decision making had taken place in your planning process, in the event of customer views conflicting proposed options, you have prioritised your statutory obligations to maintain service to all customers.

**Overall, our audit finds that there are no areas of material concern.** This is based on the evidence presented and documentation provided and relates

to; your use of Copperleaf within your business planning process for AMP8, your long-term delivery strategy, how your processes ensure adherence to the four Board assurance checklist points detailed in this report.

A detailed report of the areas reviewed during the audit can be found within this report Appendix A. Documents referenced within the report can be found listed at the back of the report in Appendix B.

# A. Detailed findings

## A.1 Your overall investment planning process

Ref	Test area	Notes from the audit session	Findings and recommendations
<b>1</b>	<b>Your overall investment planning process</b>		
1.1	Overview of the planning process	We were taken through the planning process as defined in the appendix "Developing our long-term delivery strategy" <sup>1</sup> and the PR24 - The Role of Copperleaf overview as shared by you for developing the business plan content.	No recommendations
1.2	Has Copperleaf been set up to deliver your strategy?	Evidence of links back to the company priorities and ambition as described in the SES PR24 company strategy "Long Term Delivery Strategy" <sup>2</sup> Four priority areas of: High-quality water, Resilient supply, Improve the environment, Affordability	No recommendations
		The needs longlist has been allocated to the company priority areas The value framework within Copperleaf is the Copperleaf H2O value framework. This is designed by Copperleaf for as recommended for UK Water industry value assessment. A review of the enhancement areas delivering against the priorities has been done. This is evident in the "LTDS Copperleaf Outputs Core Pathway For BT Tables" <sup>3</sup>	No recommendations

## A.2 Copperleaf inputs and outputs, optimisation, final investment decision making

Ref	Test area	Notes from the audit session	Findings and recommendations
2.1	<b>How have you decided what to offer Copperleaf for optimisation?</b>	<p>You explained the process as collecting the needs from around the business based on statutory, legal and those required for delivering the company future strategy (as defined in the LTDS)</p> <p>All needs in the initial long list are shown in "LTDS mapping - Candidate Scheme Longlist MASTER - draftv6"<sup>4</sup></p>	No recommendations
	<b>a. Is the decision justified on reasonable grounds?</b>	You explained the process for generating options to answer the needs and described the approach to ensure that all options were real and deliverable options.	No recommendations
	<b>b. What proportion of the programme is constrained?</b>	You demonstrated how all possible "real" options were initially entered into Copperleaf with no constraints. This was run as an initial view to gain sight of all potential options and ensure data was within the system for later scenario runs.	No recommendations
	<b>c. Is there a good basis for applying the constraints (e.g. legal requirement to improve)?</b>	<p>The approach to the constraints within Copperleaf was shown via the alternative scenarios. Starting with fixing the capex funding range. A sense check of these results and iterations followed this.</p> <p>It was evident that logic has been applied where options had been selected and there could be a "do nothing" option. "Must do" items were defined in the system</p>	No recommendations
	<b>d. Does that leave Copperleaf with any realistic choice?</b>	<p>You demonstrated through showing the inputs and outputs of Copperleaf that choices were being made by the system based on the constraints and the requirement to maximise value.</p> <p>This was demonstrated through the Lead pipes options in the system and option selection.</p>	No recommendations
2.2	<b>How has the programme been constrained and optimised?</b>	We were shown how the cost constraints and value maximisation requirements were used on the options, this resulted in best value affordable capex plan (affordable by the business, not referencing the bill impact here)	No recommendations
2.3	<b>What are the optimisation criteria (i.e. is for lowest cost, greatest performance gain, lowest risk, etc.)</b>	As described - maximising "value" as defined in the value framework	No recommendations

Ref	Test area	Notes from the audit session	Findings and recommendations
2.4	<b>How do you know if it's working correctly?</b>	You demonstrated to us how the value framework had been applied, areas where the scoring results were tested and adapted to ensure that realistic weighting was being given. Example shown was C-Mex where the weightings were applied to the detail calculation of values to enable a weighting comparable to other value areas. This has all been documented in "Alternative Value Scoring Questions and Assumptions" <sup>5</sup> document which we reviewed during the session	No recommendations
	<b>a. Sense checking of costs and number of schemes?</b>	You talked us through the approach to doing rough costing and then more detailed costing via Atkins for larger/more uncertain spend areas. We could see the number of needs (128) and number of proposed solutions (280) within the system and the inputs to and outputs from the system	No recommendations
	<b>b. Sense checking of selection criteria vs. outputs?</b>	You showed the different outputs before and after the criteria constraints were applied. You showed how these changed in different scenarios and how this adjusted the long-term adaptive plan.	No recommendations
2.5	<b>Does Copperleaf appear to be proposing a programme that is deliverable?</b>		
	<b>a. Has deliverability been considered in the scenarios?</b>	You talked us through the workshop approach taken with all decision makers and subject matter experts (SMEs) to enable the review of the options and the deliverability of each at a schemes level. You showed how all the options were used within each of the scenarios and hence how the deliverability view was relevant across the full range of scenarios. This was demonstrated through the articulation of how the smart meter options have been considered. Initial options were framed as 5, 10 and 13 years. These were amended to be in line with deliverability and financeability to be 7 or 12 year options (and in line with the WRSE modelling requirements).	We found that deliverability of the options in the plan has been well considered through the planning process.  <b>Recommendation:</b> We recommend that an assessment of the deliverability of the finalised overall plan should be made prior to plan submission and included in your narrative. It was discussed that this is planned for the coming weeks prior to plan submission.  Consider including in this assessment

Ref	Test area	Notes from the audit session	Findings and recommendations
		<p>You explained that deliverability of the overall plan is to be considered over the next two weeks - this is highlighted in our recommendations, with the acknowledgement that it is within your programme plan to undertake this review.</p> <p><b>28/09/2023:</b> You explained and showed us evidence of how deliverability has been assessed within the planning process, both at a programme level and at a board level (board agenda "PR24 Board 26/09/23"), including procurement, resourcing and delivery risks.</p>	<p>resource capacity, capability both internally and in the supply chain. Company financeability and customer affordability looking at bill impact based on existing work which evidences customers willingness to pay.</p> <p><b>28/09/2023: recommendation has been met</b></p>
	<p><b>b. If not, does the scale of the final plan raise concerns about deliverability?</b></p>	<p>You talked us through how key deliverability and uncertainty areas have been highlighted with the document "Section 7 The Foundations of our LTDS"<sup>6</sup></p>	<p>No recommendations</p>
	<p><b>c. What are the links between Copperleaf and resource planning - are they strong enough?</b></p>	<p>Resource planning was not shown to be included within the Copperleaf optimisation process. The resource capacity and capability assessment was shown to have been done through the workshops when reviewing the chosen options.</p>	<p>We found that the approach to reviewing resource for PR24 was acceptable.</p> <p><b>Recommendation:</b> We recommend that if/when Copperleaf is taken into BAU use, it would be beneficial to include resource planning in the system or specifically within the planning process.</p>
<p><b>2.6</b></p>	<p><b>What level of confidence do you have in the solutions/options put forward?</b></p>		
	<p><b>a. Are you happy to be held to delivering them all?</b></p>	<p>This point is covered in point 2.5a</p>	
	<p><b>b. Are you confident that the cost estimates are defensible (i.e. good central estimate balancing the risk and customer costs)</b></p>	<p>We briefly discussed costing and the approach taken to establishing BAU costs vs Enhancement costs. For key areas of spend or less certain types of spend, these costing are being validated by Atkins. A full review of cost estimating was not undertaken within this audit.</p>	<p><b>Note:</b> A full review of cost estimating was not included in this audit. The use of the costs within the system appeared sound.</p>
	<p><b>c. Is the programme dominated by a small number of high-cost schemes or lines that materially affect the optimisation - and if so is that appropriate/is there sufficient confidence in those items?</b></p>	<p>We were advised that there are a number of larger items within Copperleaf. Mainly the base capital maintenance and the smart metering roll out. The base maintenance was explained and shown to have come from Pioneer (Asset deterioration modelling system). The smart metering options have been built up and reviewed by subject matter experts.</p>	<p><b>Findings:</b> Although there are a number of large material schemes within the plan, there is a rigorous approach as to how these have been generated and included.</p>



Ref	Test area	Notes from the audit session	Findings and recommendations
2.7	<b>Does Copperleaf have a choice in the timing of investment?</b>	It was demonstrated how copperleaf can select differing timing of options based on the needs of the alternative scenarios It was clear from the Copperleaf outputs where options had been selected with different timings dependent on the scenario selected You provided an explanation of how these outputs were used to establish the core pathway. This can be seen in the summary document "Core and alternative pathways V1" <sup>7</sup>	No recommendations
	<b>a. If so,</b>		
	<b>i. on what criteria does it decide the timing (e.g. deteriorating risk, condition, rising cost, etc.)?</b>	We were shown how these have been included based on the required or estimated regulatory timings.	No recommendations
	<b>ii. What is the confidence in the underlying estimates of timing/urgency?</b>	Uncertainties in the approach to the use of the common reference scenarios and the drivers within them have been included in the plan in "Section 7 The Foundations of our LTDS" <sup>6</sup>	No recommendations
	<b>b. If not,</b>	N//A	
	<b>i. How did you decide what timing to set in the individual schemes?</b>	N//A	
	<b>ii. Are the timings well justified?</b>	N//A	
2.8	<b>Uncertainty: Has uncertainty in the underlying estimates been considered at programme level?</b>		
	<b>a. How has uncertainty been defined?</b>	As described in "Section 7 The Foundations of our LTDS" <sup>6</sup>	No recommendations
	<b>b. Has Copperleaf reviewed the effects of uncertainty, e.g. through the different scenarios run?</b>	It was shown how the use of the common reference scenarios within Copperleaf has been developed external to the system. This has been done by SMEs within the business reviewing each need and assessing it again each of the common reference scenario detail. "Full List_InvestmentForecast_IDUID_230525ID 30th May 2023_V2" <sup>8</sup> This detail has been uploaded into Copperleaf, which has	No recommendations

Ref	Test area	Notes from the audit session	Findings and recommendations
		enabled the system to understand whether certain needs are changed within each scenario.	
	<b>c. Has a reasonable/realistic range of uncertainty been considered?</b>	This has been defined within the options initially generated. The plan is defined by you as having no "nice to haves" this demonstrates to us that your plan prioritises statutory and regulatory needs including maintaining service to customers.	No recommendations
	<b>d. Any link to adaptive plans?</b>	The demonstration clearly showed the direct links from the common reference scenarios in to the adaptive plan. The summary of this approach can be seen in "Our alternative adaptive pathways" <sup>9</sup> and the output was shown in "Core and alternative pathways V1" <sup>10</sup>	

### A.3 Approach to delivering common reference scenarios

Ref	Test area	Notes from the audit session	Findings and recommendations
3.1	<b>Do the core and adaptive pathways adhere to the Ofwat guidance (if not, how are they different)?</b>	It's evident that the common reference scenarios have been used as the scenarios loaded into Copperleaf to build the adaptive plan.	No recommendations
3.2	<b>Has provision been made for the investment to adapt to changing needs over time?</b>		
	<b>a. Does it support any form of 'adaptive planning'</b>	As covered in 2.7 and 2.8. We were shown how the adaptive plan has been fed from the outputs of Copperleaf through use of the common reference scenarios.	No recommendations

#### A.4 Approach to justification of enhancement

Ref	Test area	Notes from the audit session	Findings and recommendations
<b>4.1</b>	<b>How has the assessment of enhancement vs base been fed into the planning process?</b>		
	<b>a. Review of base elements of options</b>	We were shown how the inclusion of base capital spend has been included using Pioneer modelling outputs for capital maintenance and run rate assumptions for other areas. All other new spend is considered enhancement activity, assigned to needs.	No recommendations
	<b>b. Is there a basis for applying additional value relating to enhancement items?</b>	The value framework within Copperleaf has been used to derive the best value outcomes for all capex spend. We were shown how this is used to select enhancement items that are an add-on to base activity rather than choosing them as an alternative.	No recommendations

### A.5 Board assurance checklist point:

**The needs for enhancement investment are not influenced by non-compliance or non-delivery of programmes of work (both base and enhancement) that customers have already funded**

Ref	Test area	Notes from the audit session	Findings and recommendations
5.1	<b>What is the approach to checking previously funded enhancement outcomes?</b>	<p>This has been done via the assessment of the current programme by exception. This was explained by the SME who is able to understand the delivery items which have not taken place in AMP7 and will be specifically called out within the plan for AMP8 enhancement funding case</p> <p><b>28/09/2023:</b> You updated us with the approach taken for the AMP7 investment, this is now going ahead and hence there is no overlap into AMP8 needs.</p>	<p><b>Recommendation:</b> We recommend that the funding approach for Kenley and Cheam UV be made clear within the enhancement case. Clearly referencing AMP7 funding not used, scope not delivered and how AMP8 funding proposal addresses this.</p> <p><b>28/09/2023: recommendation has been met</b></p>
5.2	<b>What is the approach to testing alternative delivery periods?</b>	<p>We were shown the approach to the alternative pathways as described in 2.7 and 2.8. The options within Copperleaf were described by you as having been reviewed during an options assessment workshop with SMEs. We saw an example of this with the smart metering delivery timelines. As described above in point 2.5a.</p>	No recommendations

**Conclusion:** Our assurance assessment reviewed the approach to understanding enhancement schemes previously funded and how these were aligned against future funding requests. Our findings were that your process for review of expenditure within your investment plan was acceptable. We have highlighted one area relating to AMP7 funding allowance for temporary UV equipment for Kenley and Cheam, we recommend this is addressed within the expenditure reconciliations and narrative presented within your business plan submission to Ofwat. This will ensure transparency of items which have been previously funded by customers.

**Update 28/09/2023:** In our follow up assessment, we can see that this has now updated, AMP7 spend is separated from AMP8 and used towards the original outcome in the AMP7 period. Our recommendation has been met.

This assurance did not extend to the assessment of performance commitment outcomes funded by customers within AMP7.

## A.6 Board assurance checklist point:

The options proposed within the business plan are the best option for customers and a proper appraisal of options has taken place

Ref	Test area	Notes from the audit session	Findings and recommendations
6.1	How has the value framework been used to give a reliable benefit assessment?	<p>We were shown the full extent of how the value framework has been used. This included how each of the values were tested (as described in point 2.4)</p> <p>You explained how the customer consultation feedback that had been done by SES was fed into the options that were initially generated by the SMEs. Then again in the decision making that took place once reviewing the Copperleaf outputs.</p>	No recommendations
6.2	What alternative options have been considered?	<p>You showed the options that came out of the optimisation process and the amended options list following the review with SMEs to take into account customer views.</p> <p>Examples for Lead and Leakage were shown where there are clear alternative options to further and/or go faster</p>	No recommendations

**Conclusion:** We find that your approach to options appraisal presented a lean methodology. The approach shows the prioritisation of maintaining service and delivering regulatory and statutory drivers. This was demonstrated to us through the use of your value framework, which presents an overall monetised value for all options. Your approach to options generation and decision making using workshops, involving a wide level of understanding and capability, in our view this has led to a robust value driven approach to option selection incorporating customer views in final decision making.

Your process and your use of value measures through your planning process evidences a best value approach to development of your business plan.

**A.7 Board assurance checklist point:**

**The plan includes price control deliverables covering the benefits of material; enhancement expenditure (not covered by performance commitments)**

Ref	Test area	Notes from the audit session	Findings and recommendations
7.1	<b>Are PCDs proposed for all material ENH expenditure?</b>	<p>You explained to us the use of a bespoke performance commitment for water softening.</p> <p>There are no other items currently defined linking to other enhancement expenditure. It was shown that this is still under development.</p> <p><b>28/09/2023:</b> You showed and described your approach to assessing the need for PCDs through your document “SES PCDs and Metrics”. It is clear to us that there are now metrics in place to cover all material enhancement expenditure either through a performance commitment, a price control deliverable or via an existing legal mechanism.</p>	<p><b>Recommendation:</b> We recommend that there is a final review of all material enhancement case expenditure and there is an assessment as to whether a PCD should be introduced. It is understood that this is planned to take place.</p> <p>Consider introduction of a PCD for the delivery of the household and business smart meter roll out, due to the high value of this programme as a proportion of the business plan. Introduction of this PCD would ensure customers’ funds are protected against non-delivery of the programme.</p> <p><b>28/09/2023: recommendation has been met</b></p>
7.2	<b>How has the value of PCDs been proposed?</b>	<p>You described that the water softening PCD will be based on the proposed value in the enhancement case and the delivery of the softening at all the required works.</p>	<p>No recommendations</p>

**Conclusion:** At the time of our audit you were finalising your proposals for PCDs. We propose to review this in review of your final business plan.

**Update 28/09/2023:** On review of your PCDs approach and final selection of PCDs, it is now clear to us that you have mechanisms in place to ensure you have PCDs for material expenditure.

**A.8 Board assurance checklist point:**  
**The expenditure proposals reflect customer views, and where appropriate are supported by customers**

Ref	Test area	Notes from the audit session	Findings and recommendations
8.1	<b>How have customer views been taken into account in developing the plan?</b>	The process for including customer views was described (as per point 6.1). We saw an example of this where the initial option for Leakage was to achieve 50% by 2050. Based on customer feedback that this was not going far enough fast enough (CSP meeting 29 June 2023 <sup>11</sup> ), the option to go further, faster was included. The option in the plan now details achieving 62% by 2050	No recommendations
8.2	<b>How do customer views influence the service measures/benefits framework?</b>	Customer views are not directly fed into the value framework, however it was shown clearly how they have been incorporated into the planning process.	We found that the approach to including customer views into the PR24 was evident and acceptable.  <b>Recommendation:</b> We recommend that if/when Copperleaf is taken into BAU use, it would be important to incorporate customer views within the value framework value scoring and assumptions in the system or specifically within the planning process.

**Conclusion:** Our assessment reviewed how customer feedback has been incorporated into your business planning process and proposed expenditure for AMP8. We found that your investment planning process incorporated customer consultation feedback. This was demonstrated to have been included through the WRMP consultation process and customer engagement during the business plan development (June '23). It is clear that rational decision making had taken place in your planning process, in the event of customer views conflicting proposed options, you have prioritised your statutory obligations to maintain service to all customers.



## B. Document references

Ref	Documents
<a href="#">1</a>	<a href="#">Developing our long-term strategy</a>
<a href="#">2</a>	<a href="#">SES PR24 Company Strategy 2025 to 2050 FINAL</a>
<a href="#">3</a>	<a href="#">LTDS Copperleaf Outputs Core Pathway For BP Tables.xlsx</a>
<a href="#">4</a>	<a href="#">LTDS mapping - Candidate Scheme Longlist MASTER - draftv6.xlsx</a>
<a href="#">5</a>	<a href="#">Alternative Value Scoring Questions and Assumptions.xlsx</a>
<a href="#">6</a>	<a href="#">Section 7 The Foundations of our LTDS.docx</a>
<a href="#">7</a>	<a href="#">Core and alternative pathways V1.xlsx</a>
<a href="#">8</a>	<a href="#">Full List InvestmentForecast IDUID 230525ID 30th May 2023 V2.xlsx</a>
<a href="#">9</a>	<a href="#">Our alternative adaptive pathways.docx</a>
<a href="#">10</a>	<a href="#">Core and alternative pathways V1.xlsx</a>
<a href="#">11</a>	<a href="#">CSP meeting 29 June 2023.pptx</a>
<a href="#">12</a>	PR24 Board Meeting 26 September (as provided by Nicola Houlahan)
<a href="#">13</a>	SES063 PCDs and Metrics (as provided by Nicola Houlahan)



## **B. PR24 Technical Assurance and Cost Adjustment Claims**

### **1. Technical Assurance Report**

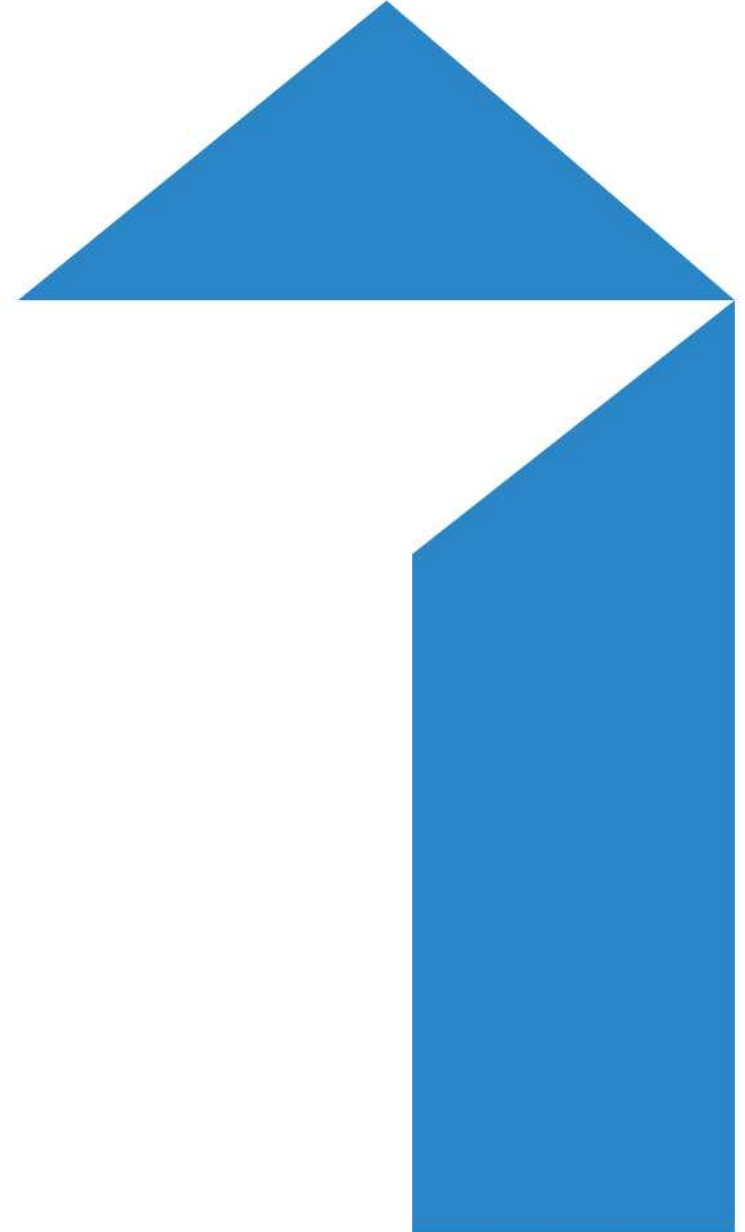
### **2. Cost Adjustment Claims**



# PR24 technical assurance

Final report

September 2023



Mott MacDonald  
22 Station Road  
Cambridge CB1 2JD  
United Kingdom

T +44 (0)1223 463500  
mottmac.com

SES Water  
64-74 London Road  
Redhill  
RH1 1LJ

Mott MacDonald Limited. Registered in  
England and Wales no. 1243967.  
Registered office: Mott MacDonald House,  
8-10 Sydenham Road, Croydon CR0 2EE,  
United Kingdom

## Issue and Revision Record

Revision	Date	Originator	Checker	Approver	Description
A	3 Aug 2023	AIJ Heather	Y Zhang	AIJ Heather	Outline report structure for discussion.
B	22 Sep 2023	AIJ Heather	Y Zhang	AIJ Heather	Draft report for SES Board.
C	25 Sep 2023	AIJ Heather	Y Zhang	AIJ Heather	Updated draft report for SES Board.
D	29 Sept 2023	AIJ Heather	Y Zhang	AIJ Heather	Update to audit limitations, status, and conclusions.
E	29 Sept 2023	AIJ Heather	Y Zhang	AIJ Heather	Typographical correction: "extent".

**Document reference:** 100381272 | PR24 | E |

**Information class:** Standard

This document is issued for the party which commissioned it and for specific purposes connected with the above-captioned project only. It should not be relied upon by any other party or used for any other purpose.

We accept no responsibility for the consequences of this document being relied upon by any other party, or being used for any other purpose, or containing any error or omission which is due to an error or omission in data supplied to us by other parties.

This document contains confidential information and proprietary intellectual property. It should not be shown to other parties without consent from us and from the party which commissioned it.

# Contents

1	Introduction	1
1.1	Tables covered by our scope of work	1
1.2	Data table test procedures	2
1.3	Approach to audits	3
2	Results	4
2.1	Tests on tables	4
2.2	Test on commentaries	4
2.3	Items not completed at time of this report	4
3	Assurance statement	5

## Tables

Table 1.1: Data tables	1
Table 1.2: Assurance tests for data tables except cost adjustment claims	2

# 1 Introduction

Ofwat sets maximum wholesale and domestic retail prices for water supplies, and for its five-yearly price review in 2024 (PR24) it requires companies to explain the services they will deliver and the costs they will incur.

You commissioned us, under our technical assurance contract, to review your PR24 data tables to inform your assurance statement to Ofwat.

This report sets out our scope and approach, our findings and assurance statement.

## 1.1 Tables covered by our scope of work

The tables covered by our scope of work are listed in table 1.1.

**Table 1.1: Data tables**

Ref	Table Description
OUT1	Overall outcome performance - Performance commitments
OUT2	Outcome performance from base expenditure - Performance commitments
OUT3	Outcome performance from enhancement expenditure - Performance commitments
OUT4	Underlying calculations for common performance commitments - water and combined
OUT6	Summary information on outcome delivery incentive payments
OUT8	PR19 outcome performance summary
OUT9	Biodiversity - Habitat information
OUT10	Underlying calculations for bespoke performance commitments
CW3	Enhancement expenditure - water resources and water network+

Ref	Table Description
CW4	Raw water transport, raw water storage and water treatment data
CW5	Treated water distribution - assets and operations
CW6	Water network+ - Mains, communication pipes and other data
CW7	Demand management - Metering activities
CW8	WRMP schemes (excluding leakage and metering activities)
CW9	Enhancement expenditure (cumulative) - water resources and water network+
CW10	Wholesale water local authority rates
CW13	Best value analysis; enhancement expenditure - water resources and water network+
CW18	Cost adjustment claims - base expenditure: water resources and water network+
CW19	Demand management - Leakage expenditure and activities
CW20	Water mains - asset condition
CW21	Water - net zero enhancement schemes
RES1	Water resources asset and volumes data
RET4	Cost adjustment claims - residential retail
DS1e	Developer services revenue (English companies)
DS2e	Developer services expenditure (excluding diversions) - water (English companies)
DS4	Developer services - New connections, properties and mains
DS5	Network reinforcement costs
DS6	Network reinforcement drivers - potable mains, sewers, pumping stations and pumping capacity
LS1	Forecast outcomes
LS2	Forecast outcomes from base expenditure
LS3	Wholesale water totex enhancement expenditure by purpose, core pathway
LS3a	Wholesale water totex enhancement expenditure by purpose, alternative pathway 1

Ref	Table Description
LS3b	Wholesale water totex enhancement expenditure by purpose, alternative pathway 2
LS7	Average total water, wastewater and combined bills under core and alternative pathways
SUP1A	Connected properties, customers and population
SUP1B	Properties and meters
SUP14	Customer engagement and affordability/acceptability of business plans
SUP15	Affordability - residential customers

## 1.2 Data table test procedures

We agreed to focus the audit tests on specific assurance requirements, where our activity would add value to your governance process.

Where data from recent annual performance reports has been transferred to the PR24 tables, we audited the transfer but did not re-audit the data.

We agreed the following tests, applied at each audit to the extent that they were relevant to each line reviewed.

**Table 1.2: Assurance tests for data tables except cost adjustment claims**

	Tests for data tables and models	Auditor guidance
1	Is there evidence for the values in the tables (e.g. a trace-back to modelling results, business plan calculation documents, etc.)	Sample back from the table line to the source data; is it clear how the values in the table were derived, and is the approach reasonable and likely to be repeatable?
2	Internal governance to support the evidence & values in the tables	Is there evidence that there has been an internal review of the approach and resulting data? Has L2 assurance been completed?
3	Has the table/line been completed in line with Ofwat guidance?	Refer to Ofwat guidance for the topic and for the individual table and line. (Check for updates/that most recent version is being used.)
4	If the table/line uses data that is used elsewhere, is it consistent?	Ask the auditee where else the underlying data are used and ask them to show that it is the same value, especially for DI, Population, properties, HH/NHH split, unit costs.
5	Does the commentary clearly and concisely represent the above? (Optional – has/have the relevant method statement/s been populated?)	Note any material deficiencies, note if commentary is not available for review. Method statements may be very simple in this case, since the BP is a one-off, but they should note the rationale for the line(s), key assumptions and main calculation approach. For some lines they may be the only corporate memory of the decisions in the plan.
6	Link to APR table	For historic and forecast values already reported in the APR, check consistency or/and that there is a clear explanation of any differences.
7	PC & OUT tables: is there robust evidence to support the assigned confidence grades?	Check the confidence grades are assigned in line with guidance, noting the materiality of the various input parameters to the overall CG. Check for underlying uncertainties revealed through confidence grades. Red action if CG is missing altogether.



### 1.3 Approach to audits

Audits were carried out through in-person and/or on-line meetings, plus a review of presented documentation including the tables and commentary documents.

Our audits were carried out during compilation of your business plan and our opinion is therefore formed from the point-in-time of the audits.

We provided feedback after each audit and held follow-up audits where necessary.

## 2 Results

### 2.1 Tests on tables

Our key conclusions from our audit sampling of your business plan tables are given below:

- We observed that you have implemented an ongoing internal governance of the tables, finishing with an in-house detailed review of the final tables prior to submission.
- We were able to sample back to the underlying Copperleaf output, Aptumo (CRM) reports, finance system reports, etc., and supporting evidence or business decisions. Where our sampling found errors, we made recommendations for correction, which were addressed during the audit cycle.
- We found evidence of good planning to meet your statutory obligations for water quality and the environment.
- You showed how you have developed your plan in line with Ofwat's PR24 final methodology.
  - Where you were uncertain on the correct interpretation of the table guidance and query responses, you have taken a reasonable approach to completion of the data tables.
  - Where our sampling identified further action was required to comply with the guidance, you acted on our recommendations.
- We discussed our detailed findings with your PR24 team and repeated audits to ensure that material actions were addressed.
- Overall, we were satisfied that the tables we reviewed have been compiled in line with Ofwat's PR24 tables guidance.

### 2.2 Test on commentaries

We reviewed your table commentaries until the audit deadline, in the light of the Ofwat PR24 tables guidance. We made recommendations where necessary.

You explained that you will use internal governance to ensure that final edits to your commentaries support the data table and align with the guidance.

### 2.3 Items not completed at time of this report

The following items were not completed at the time of issuing this report:

Data tables awaiting completion:

- Metering (CW7.1-21, CW7.24-51)

Table lines awaiting final director sign-off:

- Mains, pipes (WN+) (CW6.1-28)
- Water mains asset condition (CW20.1-12)
- Metering (CW7.1-21, CW7.24-51)
- Developer services (DS1e,2e,4-6)

Commentaries awaiting completion:

- Biodiversity performance (OUT1,2,3.6)
- Mains, pipes (WN+) (CW6.1-28)
- Water mains asset condition (CW20.1-12)

You explained that you will use internal governance to assure the completion of the above items.

### 3 Assurance statement

To the Board of SES Water

We audited technical tables of your PR24 business plan submission during August and September 2023, under our technical assurance contract. We used a mix of online and in-person audits, together with desktop reviews of your planning documents.

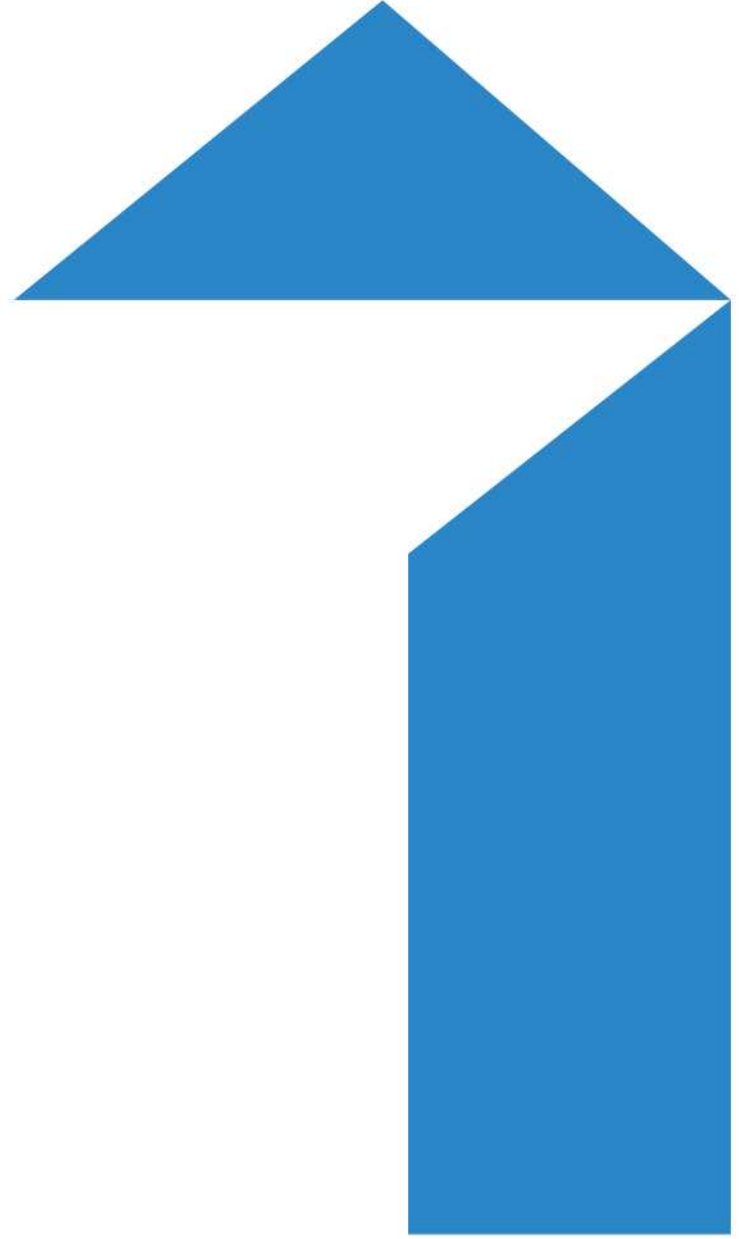
We were given free access to people and information as necessary to complete our work.

Our opinion is based on the findings of the audits carried out during compilation of the tables and commentaries.

In my professional opinion, based on and to the extent disclosed by our sampling carried out and as described in this report:

1. SES Water's business plan has been compiled taking account of Ofwat's PR24 methodology and table guidance.
2. SES Water has used its best available information including data from corporate systems, bespoke modelling and estimation, appropriate for use in long-term planning.
3. Ofwat templates are populated with no undue alternations to the structure.

Dr Andrew Heather  
Technical assurer



Paul Kerr  
Group Chief Finance Officer  
SES Water  
London Road  
Redhill  
RH1 1LJ

**Your Reference**

**PR24 cost adjustment claims**

**Our Reference**

25 September 2023

Dear Paul,

You asked us to review your proposed cost adjustment claims for water softening, average pumping head, and retail scale.

Mott MacDonald  
22 Station Road  
Cambridge CB1 2JD  
United Kingdom

T +44 (0)1223 463500  
mottmac.com

**Scope of audit**

We reviewed your claims during drafting in September 2023, to confirm that you have addressed Ofwat's guidance set out in its PR24 final methodology<sup>1</sup>. Your claims for average pumping head and retail expenditure include econometric modelling which was beyond our scope of audit. We understand that your contractor has provided assurance of the quality of its modelling.

Ofwat's guidance states that each claim must explain:

1. the need for a cost adjustment,
2. a reasonable approach to identifying efficient costs,
3. the need for expenditure,
4. the consideration of options in identifying the best option for customers, and
5. customer protection in case of partial- or under-delivery.

This document is issued for the party which commissioned it and for specific purposes connected with the above-captioned project only. It should not be relied upon by any other party or used for any other purpose.

We accept no responsibility for the consequences of this document being relied upon by any other party, or being used for any other purpose, or containing any error or omission which is due to an error or omission in data supplied to us by other parties.

This document contains confidential information and proprietary intellectual property. It should not be shown to other parties without consent from us and from the party which commissioned it.

Our overall conclusions are listed below.

### Water softening

You are unique among English and Welsh water companies in having a statutory obligation to soften water to customers in your Sutton water supply area, under the Sutton District Waterworks Act 1903 (amended by the Sutton District Waterworks Order 1983). You showed how this results in about 81% of your being softened.

This claim is 'asymmetric' in that it has no bearing on other companies' implicit allowance.

Our overall conclusions are:

Information requirement	Conclusions – water softening
The need for a cost adjustment,	Demonstrated by your statutory obligation to provide water treatment beyond that normally required in England and Wales.
A reasonable approach to identifying efficient costs,	Demonstrated by your focusing only on costs associated with water softening. Your claim is increased compared with PR19, attributed to your including more cost elements than in your pared-down PR19 claim.
The need for expenditure,	Demonstrated by the need to operate and maintain (including capital maintenance of) your capability to meet your statutory obligations. You showed that the claimed costs are based on a listing of the main activities require to soften water.
The consideration of options in identifying the best option for customers, and	Demonstrated by your claim's focus on activities to soften water, in which you principally operate and maintain existing assets, with capital maintenance proposed for Kenley water treatment works.
Customer protection in case of partial- or under-delivery.	Demonstrated by your proposed bespoke performance commitment for softening, following a similar approach to that which successfully provided protection at PR19.

### Average pumping head

Your claim for average pumping head is based on your analysis that shows that the Ofwat model does not properly explain the company cost differences caused by differences in pumping. Your analysis of industry data shows that you have an upper quartile average pumping head but that Ofwat's implicit allowance does not reflect all the inevitable cost impact.

This is a symmetrical claim: if Ofwat adjusts its model as you propose, some firms will receive a higher implicit allowance, others less.

Our overall conclusions are:

Information requirement	Conclusions – average pumping head
The need for a cost adjustment,	Demonstrated by your analysis of the relationship between average pumping head, implicit allowance, and operating cost efficiency, carried out by contract using business information you provided.
A reasonable approach to identifying efficient costs,	Demonstrated by providing costs data limited to costs of pumping and the distances involved. You confirmed that the overlap with pumping associated with water softening has been reviewed and reduced from 42% to 19%.
The need for expenditure,	Demonstrated by the need to meet demand for water and the limited resource options available.
The consideration of options in identifying the best option for customers, and	Demonstrated by your lack of choice in pumping water to provide supplies. Options are limited beyond continuing your focus on operational efficiency.
Customer protection in case of partial- or under-delivery.	Customer protection is provided by the outcome delivery incentives for water supply, since pumping is one of the main activities involved.

### Retail scale

Your claim for a cost adjustment for retail scale is based on the difference in implicit allowance from models that allow for retail scale, compared with those that don't. Your analysis shows that more allowance should be made for the effect of retail scale on efficient costs.

This is a symmetrical claim: if Ofwat adjusts its model as you propose, some firms will receive a higher implicit allowance, others less.

Our overall conclusions are:

<b>Information requirement</b>	<b>Conclusions – retail scale</b>
The need for a cost adjustment,	Demonstrated by your analysis of the Ofwat models, which shows that where retail is included, your situation is better explained than in those models that do not understand the impact of retail scale.
A reasonable approach to identifying efficient costs,	Demonstrated by your focus on retail costs only and your analysis of Ofwat's cost models, relating them to your own audited retail costs.
The need for expenditure,	Demonstrated by the need to provide retail services and the recent levels of retail expenditure you have incurred.
The consideration of options in identifying the best option for customers, and	Your claim is based on the difference between various Ofwat models and does not therefore depend on optioneering at the detailed delivery level. .
Customer protection in case of partial- or under-delivery.	Customer protection is provided by the outcome delivery incentives retail, since pumping is one of the main activities involved.

During the course of audit, we made recommendations to thoroughly mark-up and store the contemporary evidence gathered for these claims, recognising the time pressure that is inevitable if current data is to be used in cost claims.

Your sincerely,

Dr Andrew Heather  
 Technical assurer.

<b>Revision</b>	<b>Date</b>	<b>Originator</b>	<b>Checker</b>	<b>Approver</b>	<b>Description</b>
A	15Sep2023	AIJ Heather	Y Zhang	AIJ Heather	First issue



C. PR24 BP and LTDS Board Assurance - PA Consulting  
Letter to the Board





29 September 2023

10 Bressenden Place  
London  
SW1E 5DH  
United Kingdom  
+44 20 7730 9000  
paconsulting.com

Paul Kerr  
Group Chief Financial Officer  
SES Water Limited  
66-74 London Road  
Redhill  
Surrey  
RH1 1LJ

Dear Paul

**PR24 Business Plan and Long-Term Delivery Strategy (LTDS) Board Assurance – PA Consulting Advice to the SES Water Board**

This letter provides the background to our PR24 assurance support role, our scope of work, the approach we have taken, and summarises our findings. This letter and our accompanying report were prepared under the terms of our engagement letter solely for SES Water use for the purpose of assessing key elements of SES Water's development of both the PR24 Business Plan and Long-Term Delivery Strategy (LTDS).

**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 is required to submit its Business Plan to Ofwat for the period from 1 April 2025 to 31 March 2030. The Business Plan should demonstrate how SES Water has interacted with its customers, as well as regulators and other stakeholders, over many months and through several channels to gather and present evidence on the benefits the company will deliver, as well as the costs of those services, and ensure how it will take the steps to address any wider challenges facing the sector while ensuring that the quality of service provided to customers meets their expectations.

In addition to this, the LTDS which SES Water also has to prepare will set out a long-term vision and strategy for meeting SES Water's objectives and duties to 2050. Ofwat envisages that the five-year Business Plan should be developed in the context of a 25-year LTDS. Ofwat expects companies to plan over the long-term and to use adaptive planning to identify what needs to be done in the 2025 - 2030 period and what decisions should be scheduled in future periods when there will be greater certainty, with the objective that this should lead to a clearer focus on the long-term needs of customers and the environment and better decision-making on how those needs are met. To mitigate any bill impact on vulnerable customers, Ofwat intends that PR24 will enable water companies to better ensure that the costs of these improvements are shared fairly between current and future customers.

Ofwat's PR24 final methodology has made it clear that it will 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, Ofwat will expect the SES Water Board of Directors ("the Board") to provide assurance about the ambition and quality of the plan, in the round, and in various specific aspects. Ofwat's PR24 final methodology set out prescriptive requirements for Board Assurance in several areas, including LTDS, affordability, cost and outcomes, risk and return, and customer engagement.<sup>2</sup> Ofwat requires that each member of the Board signs the Board Assurance statements, including non-Executive Directors.

## Scope of work

In preparation to sign these Board assurance statements, and as part of preparing a high quality and ambitious Business Plan and a high quality LTDS, the Board had instituted a multi-layered programme of assurance activity covering a range of facets of the Business Plan and LTDS. This assurance programme involved both internal and external assurance. Overlaid on top of these individual strands of assurance work focused on various workstreams and topics, the Board requested additional targeted support specifically in relation to the Board assurance statements and whether the range of evidence assembled, and internal and external assurance conducted, would enable the Board to sign the assurance statements it intended to provide to Ofwat.

In this context, SES Water commissioned PA Consulting to:

- assist in the development of a plan for conducting the assurance work, agreeing the types of assurance needed in different areas, the kinds of information required, and the timescales needed to perform the work, taking into account SES Water's overall PR24 programme and the ability of the working team and other advisers to provide PA Consulting with the information required by certain points in the programme;
- engage regularly with the working level team and the Board on an ongoing basis as the business plan and LTDS were developed, in order to be abreast of progress and to identify any areas where, in PA's opinion, there were gaps in the evidence base and/or the scope or conduct of internal and external assurance that may have undermined the Board's ability to provide the requested assurance statements, early enough for corrective action to be taken or, if necessary, whether any revisions to the wording of the requested Board assurance statements may be needed; and
- provide independent advice – based on the evidence and information provided to PA by SES Water - to the Board about whether the Board would be able to provide the assurance statements that the Board intended to submit to Ofwat, ahead of final Business Plan and LTDS submission to Ofwat in October 2023.

PA Consulting's scope of work did not include any assessment of the actual quality and ambition of the Business Plan, or the quality of the LTDS, or – by extension – any assessment of the evidence prepared by SES Water and its various advisers. 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

Ofwat's PR24 Final Methodology set out specific requirements for Board Assurance in several areas: **LTDS, affordability (LTDS and PR24 Business Plan), cost and outcomes, risk and**

---

<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)

**return (financeability and financial resilience), customer engagement, and ambition.** The Board has also proposed assurance statements in relation to Ambition and Compliance-with-Ofwat-guidance.

To deliver our scope of work we have worked closely with both SES Water's Quality and Compliance Director, Nicola Houlahan, and various members of SES Water's Board over the period from October 2022 to September 2023:

1. Collaborated with SES Water's Board to identify the kinds of evidence it would require to support signing Ofwat's Board assurance statements and the additional statements the Board wanted to make in relation to ambition and compliance-with-Ofwat-guidance. We then agreed with SES Water's Board the **comprehensive list of evidence points that the Board wished to cite** to support each of the Board assurance statements. We have used this list of evidence points as **a series of tests** that need to be met for the Board to sign the assurance statements.
2. Engaged with the Board and working level team to understand the internal and external assurance programme, in particular who was performing assurance, when and their scope of work. We agreed this **programme of assurance** with the Board.
3. Compared the series of tests to the evidence prepared by SES Water and its advisers. As part of this exercise, we:
  - a. **reviewed both the PR24 Business Plan Assurance and Governance chapter<sup>3</sup> and LTDS Board Assurance chapter<sup>4</sup>** as drafted by SES Water, providing a detailed set of feedback comments for further consideration.
  - b. **reviewed whether the scopes of work for each internal and external assurance adviser** supporting SES Water in the development of the Business Plan and LTDS outlining what they had been commissioned to undertake aligned with the assurance reports provided by these advisers.
  - c. **reviewed Board papers and minutes** as drafted by SES from regular Board meetings over the past 18 months to verify where and when the Board had provided challenge to the Company on the development of the LTDS and Business Plan and decided specific actions feeding into the development of the Business Plan and LTDS had occurred.
  - d. **held several workshops and meetings** with members of the SES Executive Leadership Team (including the CEO and the CFO) and with working level teams to understand and clarify the evidence provided to us.
  - e. **attended Board meetings**, witnessing the strategic direction, leadership and challenge the Board has provided to the Company. We have also presented our findings and subsequent recommendations to the Board at regular intervals over the past 12 months to allow the opportunity to ask questions or provide interim feedback during the assurance process.
  - f. **interacted with the Customer Scrutiny Panel (CSP) and the Environmental Scrutiny Panel (ESP)** at regular intervals over the past 12 months, and reviewed their final report to the Board, to understand their views on the BP and LTDS.

The external assurance providers referred to in 3b above have included (i) Mott MacDonald (non-financial data tables and cost adjustment claims), (ii) NERA (financial data tables, RoRE analysis, financeability and financial resilience), (iii) Artesia, Atkins and Jacobs in relation to various aspects of the WRSE and WRMP and (iv) Beryl Wall on customer research. We also

<sup>3</sup> See PR24 Business Plan Chapter 11: Governance and Assurance

<sup>4</sup> See LTDS Chapter 7: Board governance and assurance

note that SES Water engaged several external advisors to support the formulation of the LTDS and Business Plan including:

- Berkeley Research Group (BRG) - 'Critical Friend' support on SES Water's overall business planning approach and interpretation of Ofwat guidance;
- Create 51 - customer engagement, document drafting and presentational materials;
- CEPA - regulatory review with specific development of cost assessments (including cost adjustment claims), outcomes and financial modelling;
- DJS Research, Explain, Given, ICS Consulting and Impact - research formulating and delivering the customer engagement programme;
- Cornwall Insight - energy pricing
- EY – tax support; and
- KPMG - development of the financial model.

Our work has been conducted iteratively, updating the series of tests and our findings as issues have been considered by the Board, the BP and LTDS have been drafted and as the internal and external assurance work has been undertaken and interim findings provided to us. We have shared our findings and advice with SES and the Board iteratively as well; where we have identified tests that may not be satisfied by the evidence, or if new tests have been identified, we have shared these findings with SES and the Board to enable additional information to be shared with us, additional assurance to be undertaken or for the BP and/or LTDS to be updated.

As we have reviewed information and evidence as it became available to us, we have ensured that our interim feedback has been fully communicated back to SES Water to enable the feedback to be addressed and to ensure that there are no gaps in the overall assurance process. Where we have made recommendations, these have been delivered to the SES designated point of contact to capture all points centrally and track them through from our response to the appropriate working level team. We have then followed up to confirm that our feedback has been addressed, for example that additional assurance has been undertaken to address a gap, or outstanding issues identified by an assurer have been resolved to the assurer's satisfaction.

### **Summary of our findings**

Our full Final Report has been shared with SES Water's Board for their approval.<sup>5</sup> Our Final Report contains detailed summary tables that sets out supporting evidence to accompany this letter. These tables present each assurance statement that SES Water's Board intends to make; the evidence points cited to support each statement and evidence reviewed by PA Consulting to verify the existence of the evidence cited. The Final Report also compares the statements the Board intends to make to the Board assurance statements requested by Ofwat, as well as an overview of the scopes of internal and external assurance undertaken on the Business Plan and LTDS.

Table 1 below summarises the key findings from our work.

We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statements the Board proposes to make, with the following exceptions:

- internal assurance of the enhancement cases has been completed and no issues identified;

---

<sup>5</sup> See 290923 PR24 and LTDS Board Assurance - PA Consulting Final Report to SES Water.pdf

- the remaining issues identified through the external assurance of non-financial data tables are resolved; and
- internal checks that the Business Plan and LTDS are compliant with the Ofwat business plan guidance checklist compiled by SES Water’s other advisers have been completed and no issues identified.

Please see our full Final Report for further detail.

**Table 1: Our assessment of whether the Board can sign the proposed PR24 and LTDS Board assurance statements**

Area	PA Consulting findings
LTDS	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to LTDS.</b>
Affordability (LTDS & PR24 BP)	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to Affordability.</b>
Costs and outcomes	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to Costs and Outcomes.</b>
Risk and return (financeability & financial resilience)	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to Risk and Return.</b>
Customer engagement	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to Customer Engagement.</b>
Ambition	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to Ambition.</b>
Compliance with Ofwat guidance	<b>We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to Compliance with Ofwat guidance.</b>

Based on the set of tests which the Board has specified need to be met for the Board to sign each assurance statement and on our review of the information and evidence provided to us by SES Water, **we consider there to be sufficient evidence to meet each of the tests the Board has set for signing each of the proposed PR24 Business Plan and LTDS Board Assurance statements set out in the Board assurance chapter of the PR24 Business Plan (section 11) and in the LTDS (section 7)** provided that the remaining evidence points cited above Table 1 are 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.

### **Out of scope elements and limitations of our work**

PA Consulting has not been commissioned to audit the internal assurance work carried out by SES Water’s own in-house teams. Separately, PA Consulting has 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 is 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. Accordingly, we do not express any opinion or overall conclusion on the procedures we have performed. SES Water is responsible for determining whether the scope of our work specified is 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 you.

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 Business Plan and LTDS. 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 18.00 BST on 29 September 2023. 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**

Signed: 

Anthony Legg

Member of PA's Management Group

## Annex 1 – Board Assurance statements that the SES Water Board proposes to make in relation to the PR24 Business Plan and LTDS

Area	SES Water 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)
	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)
	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)
	The Board confirms that the LTDS is based on adaptive planning principles. (Source: LTDS, Section 7, p98)
	The Board is satisfied that the LTDS has been informed by meaningful engagement with our customers. (Source: LTDS, Section 7, p98)
	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)
	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)
	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)
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)
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)
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)
	The Board confirms that the Business Plan expenditure forecasts are robust and efficient. (Source: BP, Section 11, para 35)
	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)
	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)
	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)
	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)
	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)

Area	SES Water Board Assurance statement
	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)
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)
	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)
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)
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)
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)
	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)
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)





D. PR24 BP and LTDS Board Assurance – PA Consulting  
Report for the Board



# SES Water PR24 Business Plan & LTDS Board Assurance

PA Consulting Final Report for SES  
Water

29 September 2023

***For questions, contact:***

**Anthony Legg**

Anthony.Legg@paconsulting.com



**Navdeep Sandhu**

Navdeep.Sandhu@paconsulting.com



**Bringing Ingenuity to Life**  
paconsulting.com

# Legal Notice

---

This report was prepared by PA Consulting Services Limited (“PA”) under the terms of the agreement between PA Consulting Services Limited and SES Water Limited.

None of the Addressees or PA Consulting Services Limited or any of their directors, officers, employees, agents and other persons acting on their behalf:

(a) make any warranty, express or implied, with respect to the use of any information or methods used in this report; or

(b) assume liability with respect to any information or methods disclosed in this report to any party unless agreed otherwise in writing.

No other party may use the report for any purpose except as expressly set out in the agreement, or with the specific written consent of PA Consulting Services Limited.

PA has not verified the completeness and/accuracy of the information provided to or obtained by PA unless the report expressly says so.

The report does not constitute investment advice. The report presents a commercial view; it has not been prepared by lawyers and does not present a legal view or constitute legal advice.

Nothing in this report should be taken as a promise or guarantee as to the occurrence of any future events.

# Contents

<b>01</b>	<b>Executive Summary</b>	<b>04</b>
<b>02</b>	<b>Introduction</b>	<b>09</b>
<b>03</b>	<b>Comparison of SES Water Board Assurance Statements and Ofwat Requested Board Assurance Statements</b>	<b>15</b>
<b>04</b>	<b>Assessment of scope of internal and external assurance</b>	<b>20</b>
<b>05</b>	<b>Assessment of Existence of Evidence Cited in relation to Long Term Delivery Strategy (LTDS) Board Assurance Statement</b>	<b>25</b>
<b>06</b>	<b>Assessment of Existence of Evidence Cited in relation to Affordability (LTDS and PR24 Business Plan) Board Assurance Statement</b>	<b>38</b>
<b>07</b>	<b>Assessment of Existence of Evidence Cited in relation to Costs and Outcomes Board Assurance Statement</b>	<b>42</b>
<b>08</b>	<b>Assessment of Existence of Evidence Cited in relation to Risk and Return Board Assurance Statement</b>	<b>58</b>
<b>09</b>	<b>Assessment of Existence of Evidence Cited in relation to Customer Engagement Board Assurance Statement</b>	<b>63</b>
<b>10</b>	<b>Assessment of Existence of Evidence Cited in relation to Ambition Board Assurance Statement</b>	<b>69</b>
<b>11</b>	<b>Assessment of Existence of Evidence Cited in relation to Compliance with Ofwat guidance Board Assurance Statement</b>	<b>72</b>



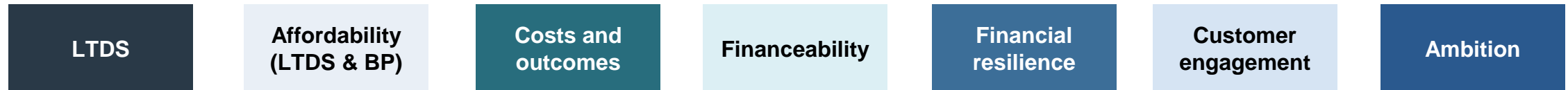
# 01

**Executive Summary**



# Background and scope of work

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. Ofwat's PR24 Final Methodology set out requirements for Board Assurance in several areas:



SES Water's Board also proposed to make a statement about compliance with Ofwat Business Plan and LTDS guidance.

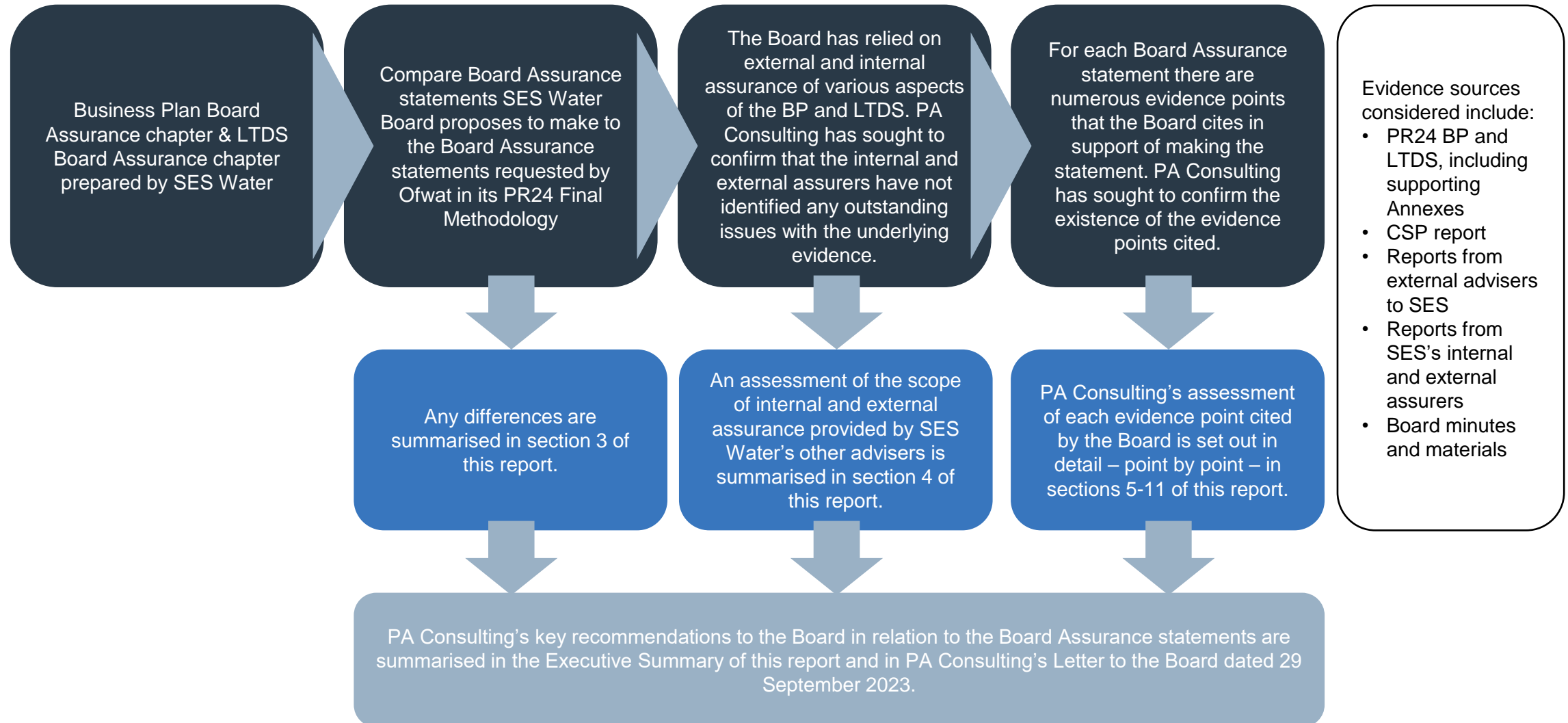
To assist the Board prepare to sign these Board assurance statements, SES Water requested Board assurance support from PA Consulting in relation to the statements the Board wished to make. In this context, PA Consulting had been commissioned by SES Water to:

- assist in the development of a plan for conducting the assurance work, agreeing the types of assurance needed in different areas, the kinds of information required, and the timescales needed to perform the work;
- engage regularly with the working level team and the Board on an ongoing basis as the business plan and LTDS were developed; and
- provide independent advice based on the evidence and information provided to PA by SES Water - to the Board about whether the Board would be able to provide the assurance statements that the Board intended to submit to Ofwat, ahead of final Business Plan and LTDS submission to Ofwat in October 2023.

PA Consulting's scope of work did not include any assessment of the actual quality and ambition of the Business Plan, or the quality of the LTDS, or – by extension – any assessment of the evidence prepared by SES Water and its various advisers. PA Consulting's work also did not include any audit of the internal and external assurance work undertaken by SES Water and its other advisers; PA Consulting's work has assumed that all assurance work undertaken by others has been robustly undertaken.

This report is based on evidence and information provided to us by SES Water up to 18.00 BST on 29 September 2023.

# Our approach to performing external Board assurance on the development of the LTDS and PR24 Business Plan



# We consider there to be sufficient evidence to meet each of the tests the Board has set for signing each of the proposed PR24 Business Plan and LTDS Board Assurance statements



<b>LTDS</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>LTDS</b> .
<b>Affordability</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>Affordability</b> .
<b>Costs and Outcomes</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>Costs and Outcomes</b> .
<b>Risk and return</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>Risk and Return</b> .
<b>Customer engagement</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>Customer Engagement</b> .
<b>Ambition</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>Ambition</b> .
<b>Compliance with Ofwat guidance</b>	We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statement the Board proposes to make in relation to <b>Compliance with Ofwat guidance</b> .



# Our assessment of whether the Board can sign the proposed PR24 and LTDS Board assurance statements has noted the following exceptions

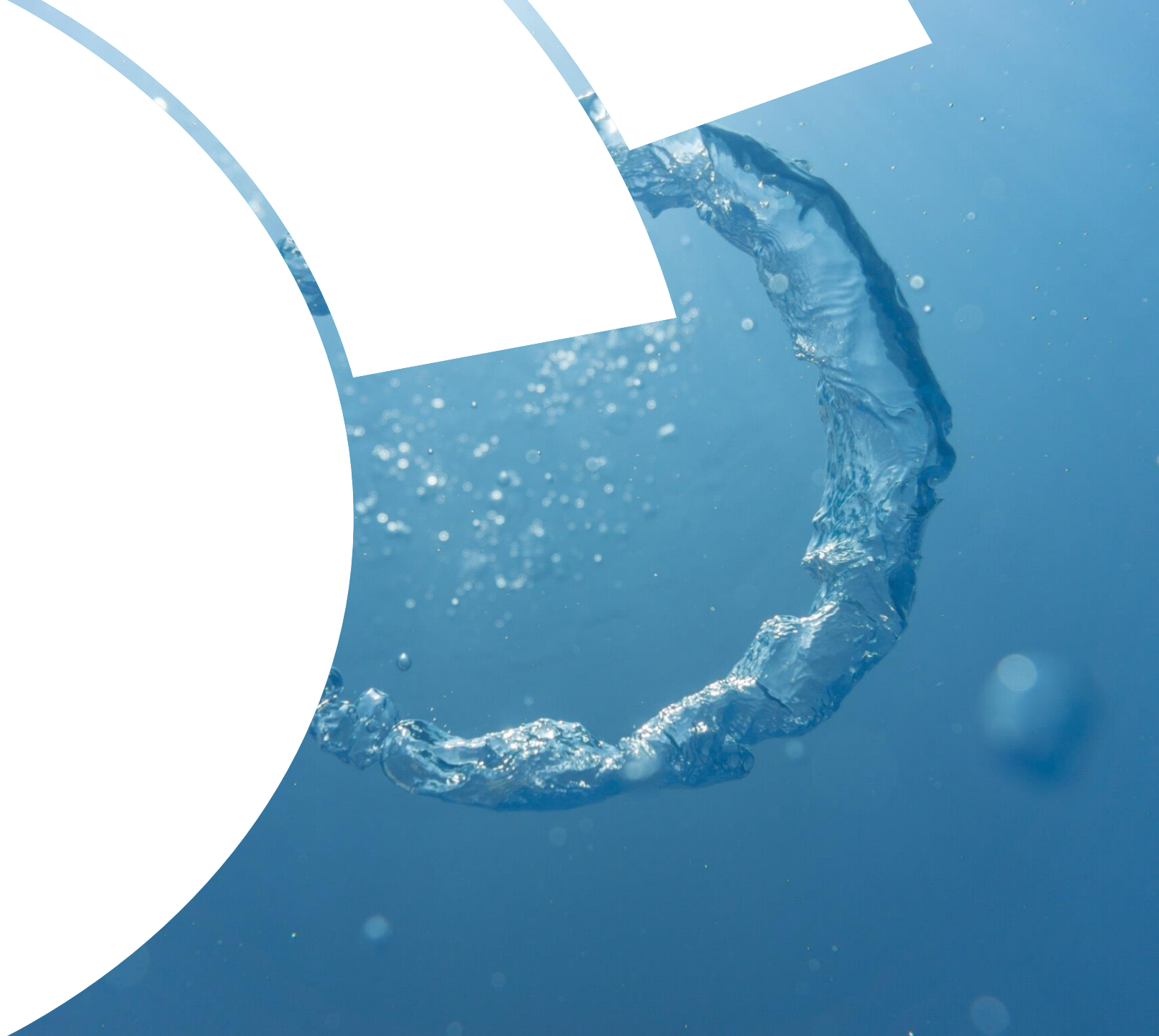
---

We have identified sufficient evidence that we consider satisfies the series of tests the Board has specified in relation to the assurance statements the Board proposes to make, with the following exceptions:

- internal assurance of the enhancement cases has been completed and no issues identified;
- the remaining issues identified through the external assurance of non-financial data tables are resolved; and
- internal checks that the Business Plan and LTDS are compliant with the Ofwat business plan guidance checklist compiled by SES Water's other advisers have been completed and no issues identified.

# 02

**Introduction**

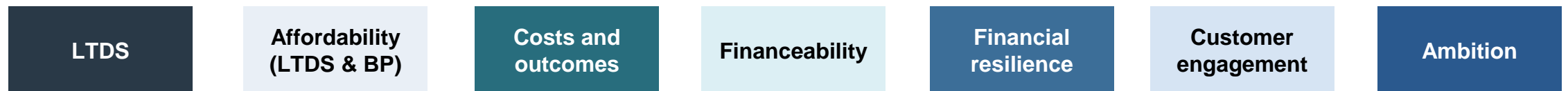


# Ofwat's PR24 Final Methodology set out prescriptive requirements for Board Assurance in several areas

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 is required to submit its Business Plan to Ofwat for the period from 1 April 2025 to 31 March 2030. The Business Plan should demonstrate how SES Water has interacted with its customers, as well as regulators and other stakeholders, over many months and through several channels to gather and present evidence on the benefits the company will deliver, as well as the costs of those services, and ensure how it will take the steps to address any wider challenges facing the sector while ensuring that the quality of service provided to customers meets their expectations.

In addition to this, the LTDS which SES Water also has to prepare will set out a long-term vision and strategy for meeting SES Water's objectives and duties to 2050. Ofwat envisages that the five-year Business Plan should be developed in the context of a 25-year LTDS. Ofwat expects companies to plan over the long-term and to use adaptive planning to identify what needs to be done in the 2025 - 2030 period and what decisions should be scheduled in future periods when there will be greater certainty, with the objective that this should lead to a clearer focus on the long-term needs of customers and the environment and better decision-making on how those needs are met. To mitigate any bill impact on vulnerable customers, Ofwat intends that PR24 will enable water companies to better ensure that the costs of these improvements are shared fairly between current and future customers.

Ofwat's PR24 final methodology has made it clear that it will expect all companies - including SES Water - to submit a high quality and ambitious Business Plan, and a high quality LTDS. As part of this, Ofwat will expect the SES Water Board of Directors ("the Board") to provide assurance about the ambition and quality of the plan, in the round, and in various specific aspects. Ofwat's PR24 final methodology set out prescriptive requirements for Board Assurance in several areas, including:



Ofwat requires that each member of the Board signs the Board Assurance statements, including non-Executive Directors. The Board is also expected to provide ongoing challenge to company management throughout the development of the LTDS. We note that the Board Assurance requirements for LTDS include specific statements (see Section 5 in our report) that we have not been asked to provide assurance on. We note that a similar level of challenge in relation to the LTDS was applied by the Board to the development of the Business Plan.



# Our scope of work

In preparation to sign these Board assurance statements, and as part of preparing a high quality and ambitious Business Plan and a high quality LTDS, the Board had instituted a multi-layered programme of assurance activity covering a range of facets of the Business Plan and LTDS. This assurance programme involved both internal and external assurance. Overlaid on top of these individual strands of assurance work focused on various workstreams and topics, the Board requested additional targeted support specifically in relation to the Board assurance statements and whether the range of evidence assembled, and internal and external assurance conducted, would enable the Board to sign the assurance statements it intended to provide to Ofwat.

To assist the Board prepare to sign these Board assurance statements, SES requested Board assurance support from PA Consulting in relation to the statements the Board wished to make. In this context, PA Consulting had been commissioned by SES Water to:

- assist in the development of a plan for conducting the assurance work, agreeing the types of assurance needed in different areas, the kinds of information required, and the timescales needed to perform the work;
- engage regularly with the working level team and the Board on an ongoing basis as the business plan and LTDS were developed; and
- provide independent advice based on the evidence and information provided to PA by SES Water - to the Board about whether the Board would be able to provide the assurance statements that the Board intended to submit to Ofwat, ahead of final Business Plan and LTDS submission to Ofwat in October 2023.

SES Water's Board also proposed to make a statement about compliance with Ofwat Business Plan and LTDS guidance.

PA Consulting had not been commissioned to:

- provide any assessment of the actual quality and ambition of the Business Plan, or the quality of the LTDS, or – by extension – any assessment of the evidence prepared by SES Water and its various advisers.
- perform any audit of the internal and external assurance work undertaken by SES Water and its other advisers; PA Consulting's work has assumed that all assurance work undertaken by others has been robustly undertaken.

# We set out to gather the evidence that we expected to see to support the Board make the assurance statements against specific areas as outlined by Ofwat

**Step 1:** Collaborated with SES Water's Board to identify the kind of evidence required to support signing Ofwat's Board assurance statements




**Step 2:** Agreed this programme of assurance with the Board.

**Step 3:** Compared the series of tests to the evidence prepared by SES Water and its advisers









1. We then agreed with SES Water's Board the **comprehensive list of evidence points that the Board wished to cite** to support each of the Board assurance statements. We have used this list of evidence points as **a series of tests** that need to be met for the Board to sign the assurance statements.
2. Engaged with the Board and working level team to understand the internal and external assurance programme, in particular who was performing assurance, when and their scope of work.
3. As part of this exercise, we:
  - a. **reviewed both the PR24 Business Plan Assurance and Governance chapter and LTDS Board Assurance chapter** as drafted by SES Water, providing a detailed set of feedback comments for further consideration.
  - b. **reviewed whether the scopes of work for each internal and external assurance adviser** supporting SES Water in the development of the Business Plan and LTDS outlining what they had been commissioned to undertake aligned with the assurance reports provided by these advisers.
  - c. **reviewed Board papers and minutes** as drafted by SES from regular Board meetings over the past 18 months to verify where and when the Board had provided challenge to the Company on the development of the LTDS and Business Plan and decided specific actions feeding into the development of the Business Plan and LTDS had occurred.
  - d. held several **workshops and meetings** with members of the SES Executive Leadership Team (including the CEO and the CFO) and with working level teams to understand and clarify the evidence provided to us.
  - e. **attended Board meetings**, witnessing the strategic direction, leadership and challenge the Board has provided to the Company. We witnessed discussion of a wide range of matters during Board meetings and we are aware that the Board has been asked to, and has to our knowledge, review and comment on all the different chapters of the LTDS and Business Plan. We have also presented our findings and subsequent recommendations to the Board at regular intervals over the past 12 months to allow the opportunity to ask questions or provide interim feedback during the process.
  - f. **interacted with the Customer Scrutiny Panel (CSP) and the Environmental Scrutiny Panel (ESP)** at regular intervals over the past 12 months, and reviewed their final report to the Board, to understand their views on the BP and LTDS.

# We noted that SES Water engaged several advisors to support the formulation of the LTDS and Business Plan and to provide external assurance on key areas

## External assurers of the LTDS and Business Plan

	Non-financial data tables and cost adjustment claims
	RoRE analysis, financeability and financial resilience
	Various aspects of the WRSE and WRMP
<b>Beryl Wall</b>	Customer research

## Advisers that supported the formulation of the LTDS and Business Plan

	'Critical Friend' support on LTDS & BP
	Customer engagement, document drafting and presentational materials
	Development of costs, outcomes and financial modelling
	Tax support
	Research formulating and delivering the customer engagement programme
	Energy pricing
	Energy pricing
	Development of the financial model

Our work has been conducted iteratively, updating the series of tests and our findings as issues have been considered by the Board, the Business Plan and LTDS have been drafted, and as the internal and external assurance work has been undertaken and interim findings provided to us. We have shared our findings and advice with SES and the Board iteratively as well; where we have identified tests that may not be satisfied by the evidence, or if new tests have been identified, we have shared these findings with SES and the Board to enable additional information to be shared with us, additional assurance to be undertaken or for the Business Plan and/or LTDS to be updated.

As we have reviewed information and evidence as it became available to us, we have ensured that our interim feedback has been fully communicated back to SES Water to enable the feedback to be addressed and to ensure that there are no gaps in the overall assurance process. Where we have made recommendations, these have been delivered to the SES designated point of contact to capture all points centrally and track them through from our response to the appropriate working level team. We have then followed up to confirm that our feedback has been addressed, for example that additional assurance has been undertaken to address a gap, or outstanding issues identified by an assurer have been resolved to the assurer's satisfaction.

# Structure of this report

---

To address the requirements set out in the scope to work, the remainder of this report is structured as follows:

- Section 3 presents any noted differences between SES Water's Board Assurance Statements and Ofwat's requested Board Assurance Statements as part of the PR24 process;
- Section 4 presents an assessment of the scope of internal and external assurance provided by SES Water's other advisers; and
- Sections 5 - 11 documents PA Consulting's assessment of each evidence point cited by the Board in detail against each individual assurance statement.

**PA Consulting's key recommendations to the Board in relation to the Board Assurance statements are summarised in the Executive Summary of this report and in PA Consulting's Letter to the Board dated 29 September 2023.**

# 03

**Comparison of SES Water  
Board Assurance  
Statements and Ofwat  
Requested Board  
Assurance Statements**





# Comparison of Board Assurance statements proposed by SES Water Board and Ofwat requested Board Assurance statements

Category	Ofwat requested Board Assurance statement (from PR24 Final Methodology)	SES Water Board Assurance statement
<b>LTDS</b>	<p>That the board has challenged and satisfied itself that the long-term delivery strategy:</p> <ul style="list-style-type: none"> <li>reflects a long-term vision and ambition that is shared by the board and company management;</li> <li>is high quality, and represents the best possible strategy to efficiently deliver its stated long-term objectives, given future uncertainties;</li> <li>will enable the company to meet its statutory and licence obligations, now and in the future</li> <li>is based on adaptive planning principles;</li> <li>has been informed by customer engagement; and</li> <li>has taken steps to secure long-term affordability and fairness between current and future customers.</li> </ul> <p>That the board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long-term delivery strategy. The board should provide evidence of where it has challenged company management and an explanation of the process it has used to arrive at the view that its strategy is the best it can be.</p>	<p>The Board Assurance statement is identical, except for the 5<sup>th</sup> and 6<sup>th</sup> bullet points which reads as follows with differences highlighted in <b>bold</b>:</p> <p><i>'The LTDS has been informed by <b>meaningful</b> customer engagement.'</i></p> <p><i>'The Board confirms that we have taken steps to secure long-term affordability and fairness between current and future customers, <b>ensuring bills remain affordable for all.</b>'</i></p>
<b>Affordability</b>	<p>That the board has challenged and satisfied itself that:</p> <ul style="list-style-type: none"> <li>the full implication of the 2025-30 business plan for customers was considered and that the plan achieves value for money; and</li> <li>the long-term delivery strategy 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.</li> </ul>	<p>Identical</p>



# Comparison of Board Assurance statements proposed by SES Water Board and Ofwat requested Board Assurance statements (continued)

Category	Ofwat requested Board Assurance statement (from PR24 Final Methodology)	SES Water Board Assurance statement
Costs and Outcomes	<p>That the board has challenged and satisfied itself that:</p> <ul style="list-style-type: none"> <li>• the performance commitment levels in the plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure;</li> <li>• the expenditure forecasts included in the company’s business plan are robust and efficient;</li> <li>• the needs for enhancement investment are not influenced by non-compliance or non-delivery of programmes of work (both base and enhancement) that customers have already funded;</li> <li>• the options proposed within the business plan are the best option for customers and a proper appraisal of options has taken place;</li> <li>• PR24 plans and the expenditure proposals within them are deliverable and that the company has put in place measures to ensure that they can be delivered. <u>This includes setting out the steps the Board has taken to satisfy itself that supply chain risk is manageable and delivery plans account for:</u> <ul style="list-style-type: none"> <li>○ <u>the ability of the company and its supply chain to expand its capacity and capability at the rate required to deliver the increased investment;</u></li> <li>○ <u>the impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; and</u></li> <li>○ <u>key supply chain risks and capacity constraints, such as the availability of specialist resource or components, e.g. river quality monitors, smart meters or SuDS designers.</u></li> </ul> </li> <li>• the plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments);</li> <li>• that the expenditure proposals are affordable by customers and do not raise bills higher than necessary; and</li> <li>• the expenditure proposals reflect customer views, and where appropriate are supported by customers</li> </ul>	<p>The Board Assurance statement is identical, except for the 3<sup>rd</sup> bullet point which reads as follows with differences highlighted in <b>bold</b>:</p> <p><i>‘That all proposed enhancement <b>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.</b>’</i></p> <p>Further, the bold text underlined does not explicitly appear in SES’s Board Assurance statement, but these points are covered in the evidence cited by the Board in the Board Assurance chapter.</p>

# Comparison of Board Assurance statements proposed by SES Water Board and Ofwat requested Board Assurance statements (continued)

Category	Ofwat requested Board Assurance statement (from PR24 Final Methodology)	SES Water Board Assurance statement
Risk & Return	<p><i>Financeability</i></p> <p>That the board should:</p> <ul style="list-style-type: none"> <li>provide assurance that the business plan is financeable on the basis of the notional capital structure. This assurance should take account of all components of the business plan, including our early view on the allowed return on capital for PR24 that we set out in Chapter 7, and consistent with maintaining target credit ratings at least two notches above the minimum of the investment grade. We expect the board to set out clearly the steps taken to provide assurance, including the consideration of the financial ratios. See Chapter 8 for further details.</li> </ul> <p><i>Financial Resilience</i></p> <p>That the board should:</p> <ul style="list-style-type: none"> <li>provide an assurance statement that the actual company is financially resilient over the 2025-2030 period and beyond under its business plan; and</li> <li>set out the steps it has taken to enable it to make that statement, the factors it has taken account of, and the suite of financial metrics used to ensure the company is financially resilient.</li> </ul> <p>We expect the plan to demonstrate the basis on which the assessment has been carried out, including how the base case and downside scenarios have been established and assessed. See Chapter 9 for further details</p>	<p>The Board Assurance statement is not consistent with maintaining, credit ratings at least two notches above the minimum of the investment grade. It is worded as follows with the following caveats:</p> <p><i>‘Our forecast financial metrics indicate the Company achieving, on average across AMP8, a credit rating of Baa1 under Moody’s assessment criteria, <b>albeit marginally, with at a minimum a solid credit rating of Baa2.</b></i></p> <p><i>However, achieving a credit rating of Baa1 is caveated with the need for solid operational and regulatory performance, TOTEX spend in line with final allowances from Ofwat, continued equity injections as detailed in our financing plan for 2023 to 2026, and absent any adverse macro-economic factors.’</i></p>

1. SES Water’s Board assurance statement differs from Ofwat’s requested statement as it does not explicitly state that SES Water will achieve a credit rating two notches above the minimum investment grade, unless the Company was to substantially inject additional equity.



# Comparison of Board Assurance statements proposed by SES Water Board and Ofwat requested Board Assurance statements (continued)

Category	Ofwat requested Board Assurance statement (from PR24 Final Methodology)	SES Water Board Assurance statement
Customer Engagement	That the board should provide assurance that the company’s customer engagement and research meets the standards for high-quality research and any other relevant statements of best practice and has been used to inform its business plan and long-term delivery strategy.	The Board Assurance statement differs from Ofwat’s requested statement, which reads as follows with differences highlighted in <b>bold</b> :  <i>‘As a Board, we are satisfied that the Company has delivered a high-quality customer engagement and research programme that has followed best practice, <b>addressed each of Ofwat’s key principles for engagement research</b>, and has been used to inform our long-term delivery strategy and business plan.’</i>
Ambition	No explicit Board Assurance statement requested by Ofwat	The Board believe the Company’s business plan is ambitious and reflects the expectations and priorities of our customers, stakeholders, regulators and government.  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.
Compliance with Ofwat Guidance	No explicit Board Assurance statement requested by Ofwat	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.

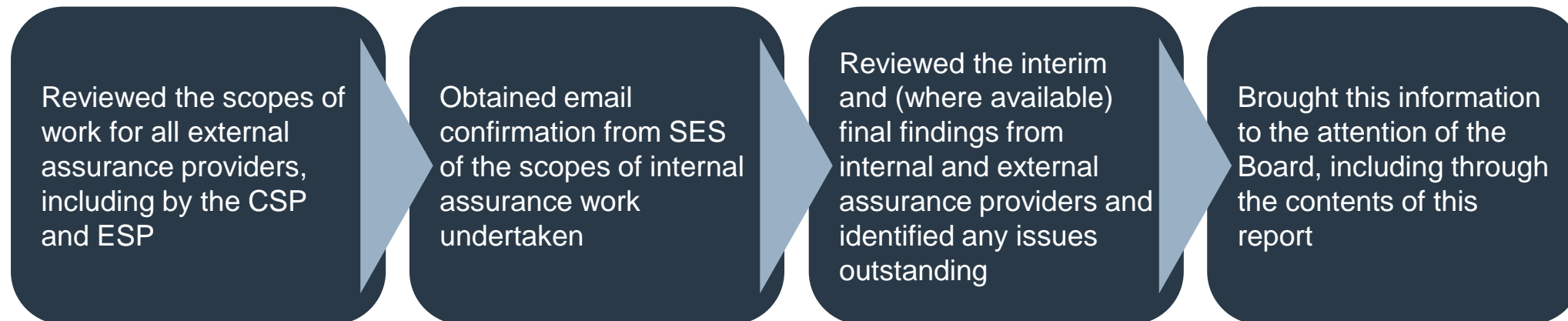
# 04

**Assessment of scope of  
internal and external  
assurance**



# Introduction

To ensure that the internal and external assurance of SES Water’s Business Plan and LTDS, and underlying supporting calculations and analysis, meets the Board’s expectations, we have:

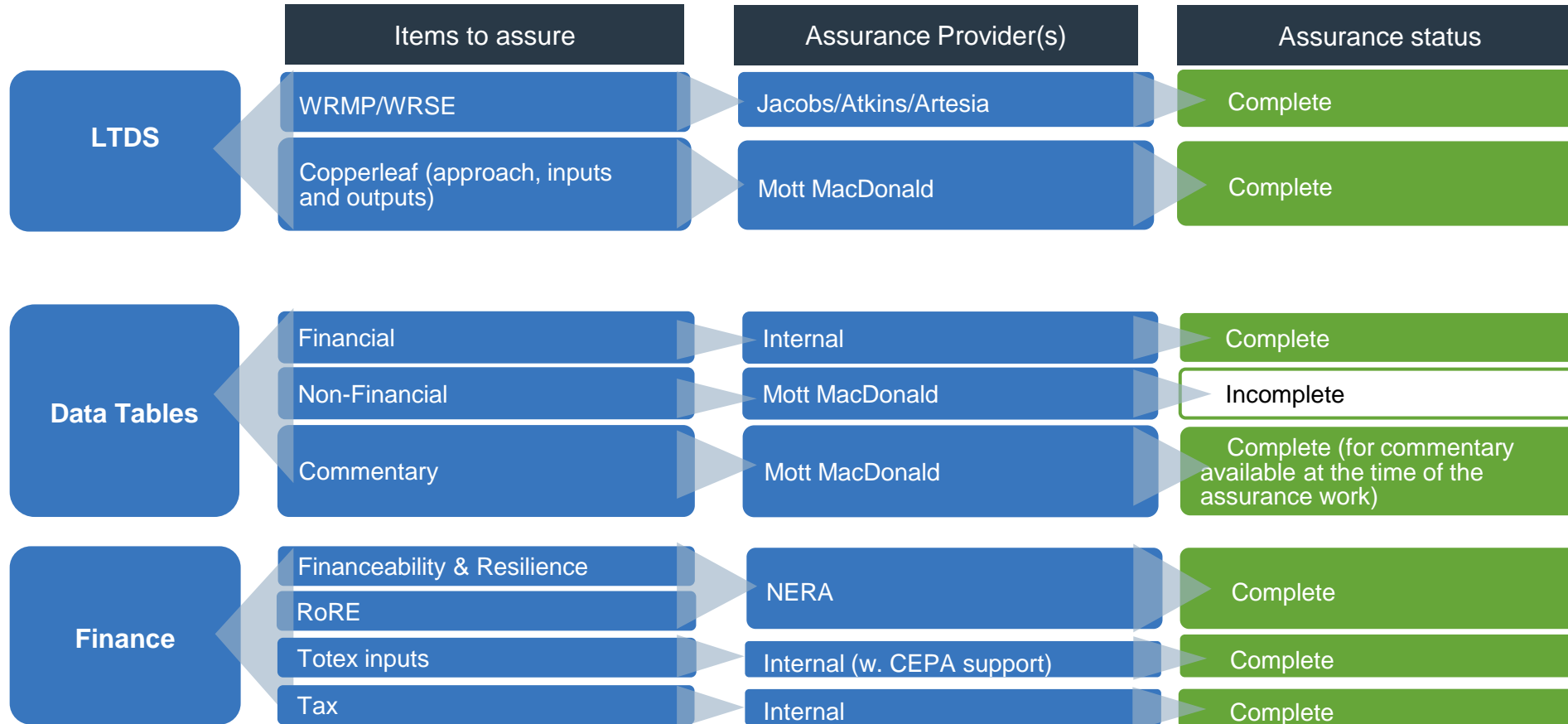


The following slides summarise an “assurance map” showing internal and external assurance coverage of aspects of the Business Plan and LTDS.

Full scopes of work for internal and external assurance have been reviewed as part of our work, but these are not included in this report to respect confidentiality between SES Water and their other advisers.

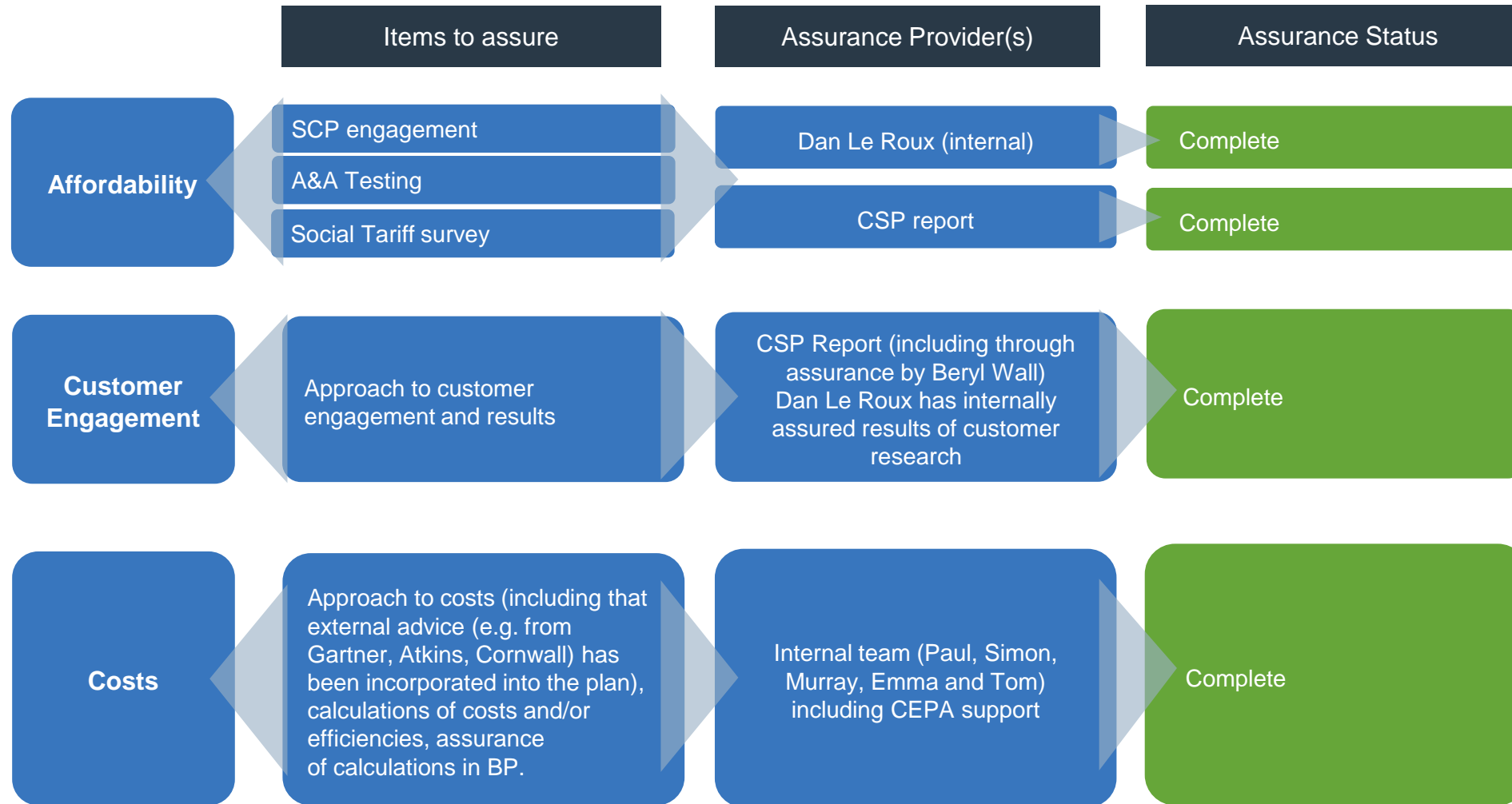
# PR24 Business Plan & LTDS Board Assurance

Assurance map (1 of 3)



# PR24 Business Plan & LTDS Board Assurance

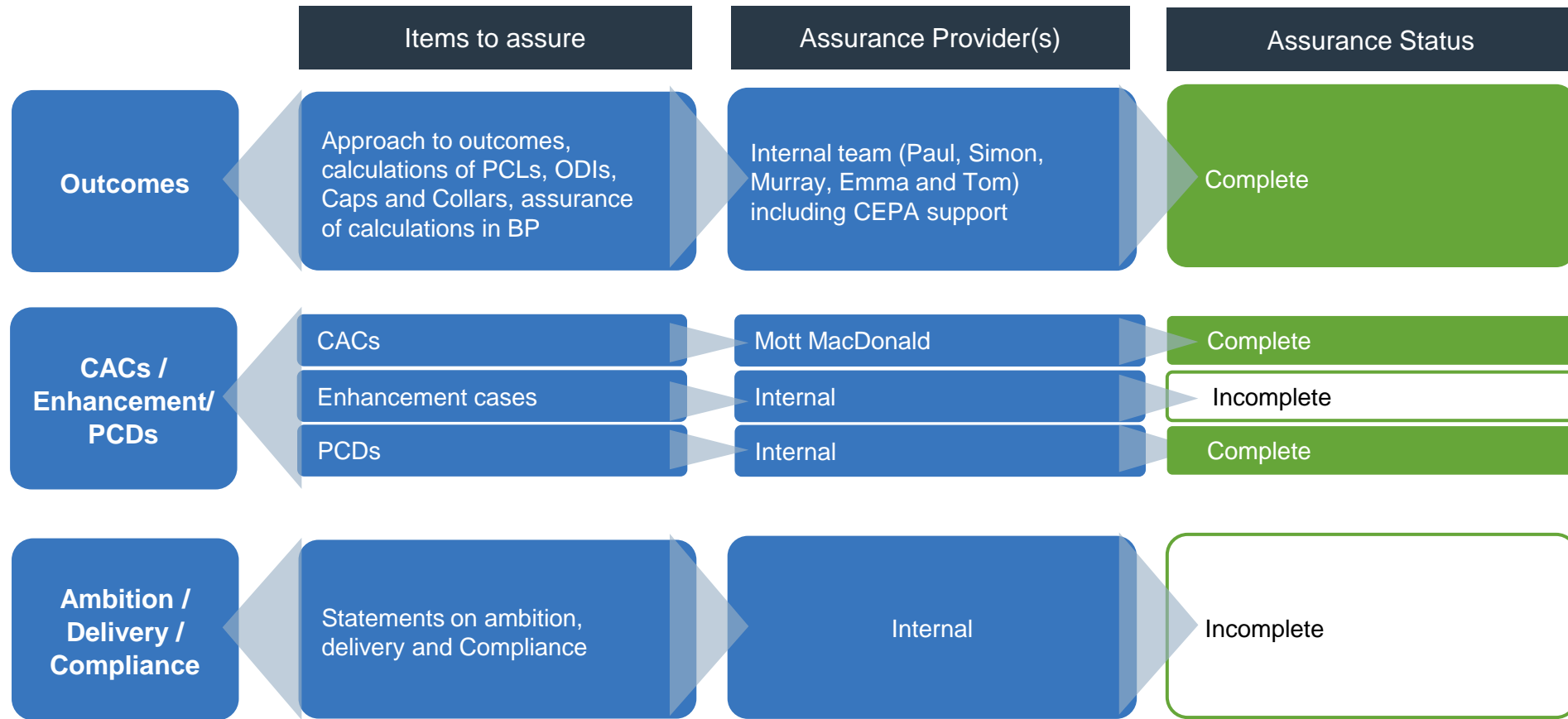
## Assurance map (2 of 3)





# PR24 Business Plan & LTDS Board Assurance

Assurance map (3 of 3)



# 05

**Assessment of Existence of  
Evidence Cited in relation to  
Long Term Delivery Strategy  
(LTDS) Board Assurance  
Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (1 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement <sup>1</sup>	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the LTDS reflects the long-term vision and ambition that is shared by the Board and Company management</b></p>	<p>As a Board, we endorse the Company's purpose to harness the potential of water to enhance nature and improve lives, and we confirm this LTDS will deliver the Company's long-term vision to transform performance through digital innovation and smart technology, to build the trust of our customers so that they value water and the service we provide, and to enhance the environment and provide local communities with wider benefits from our business activities</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>Our long-term ambition has been defined in terms of the outcomes the Company will deliver, aligned to the performance commitments set by Ofwat for PR24, with a key focus on securing resilient and sustainable water resources through reducing leakage and supporting customers to reduce their water usage.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>The Board and management are confident that our shared ambition reflects the expectations of customers, stakeholders, regulators and government, and will exceed those expectations where we are confident that our past performance and innovative approaches will enable us to efficiently deliver a faster improved performance, where that is supported by our customers.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>Our ambitious long-term plans for 2050 include surpassing the leakage reduction target set by government to achieve the 50% reduction target nine years earlier than planned; ensuring that no customer experiences an interruption to their supply that lasts greater than three hours; and reducing household consumption to 110 litres per person per day. The Board believes these plans will enable the Company to stay ahead of the likely future challenges brought by climate change and population growth</p>	<p>We have seen evidence of SES Water stating these commitments in Chapter 3 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"We are starting from a base leakage level well below the industry average, so sustained leakage reductions are comparatively harder and more expensive to deliver. We will achieve the 50% reduction target nine years earlier than required" Source: LTDS, Chapter 3 (Our ambition), p22</i></li> <li>• <i>Our 2050 ambition is to reduce household consumption to 110 litres per person per day (on average) and reduce business consumption by 15%." Source: LTDS, Chapter 3 (Our ambition), p32</i></li> </ul>

1. See SESWater\_LTDS\_FullDocument\_FINAL, Chapter 7 Board governance and assurance

# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (2 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>The Board confirms that the LTDS reflects the long-term vision and ambition that is shared by the Board and Company management</p>	<p>The Board supports the plans to ensure investment supports our current industry leading water quality performance and to go beyond our statutory duties to replace lead pipework where it benefits customers who are most at risk.</p>	<p>We have seen evidence of SES Water’s industry leading position, specifically in relation to leakage, in Chapter 2 of the LTDS:</p> <ul style="list-style-type: none"> <li>“We are already one of the leading water undertakers with respect to low levels of leakage, as a percentage of distribution input.” Source: LTDS, Chapter 2 (Introduction to our LTDS), p8 (footnote)</li> </ul> <p>We have seen evidence of SES Water stating its commitment to replace lead pipework for customers most at risk in Chapter 3 of the LTDS:</p> <ul style="list-style-type: none"> <li>“We will replace lead pipes where they pose the greatest risk to our customers, initially targeting properties that have the biggest exposure risk to those most vulnerable including children and young people. Longer-term, we will collaborate with others, both within and outside of the sector, to develop innovative, cost-effective methods of eradicating the risk of lead from our drinking water supplies.” Source: LTDS, Chapter 3 (Our ambition), p23</li> </ul>
	<p>In support of the Company’s purpose, the Board’s ambition is to enhance our local environment by continuing to manage abstractions and discharges to consent limits, maintain our long-standing record of zero serious pollution incidents, reduce net operational greenhouse gas emissions to zero by 2050, increase biodiversity on 80% of land that we own and deliver a Water Industry National Environment Programme (WINEP) that goes beyond our minimum statutory requirements, in support of resilient and good quality water resources.</p>	<p>We have seen evidence of SES Water stating these commitments in Chapter 3 of the LTDS:</p> <ul style="list-style-type: none"> <li>“In addition to our focus on improving our local water environment, we will continue to work to reduce our carbon emissions, so we reach net zero by 2050, in line with the Government’s target and the IEMA greenhouse gas reduction hierarchy.” Source: LTDS, Chapter 3 (Our ambition), p23</li> <li>“We will commit 80% of the land we own to increasing biodiversity and plan to create more than 530 biodiversity units - a 25% increase by 2050 on our own land.” Source: LTDS, Chapter 3 (Our ambition), p22-23</li> <li>“Between 2025 and 2050 we will reduce our abstraction from sources where it is not sustainable to continue taking water at the rate we do now and leave more water in the environment.” Source: LTDS, Chapter 3 (Our ambition), p28</li> <li>“We have a strong environmental record, having caused no category 1 and 2 pollutions to the environment for more than 15 years and consistently complying with our discharge permits. We will continue to maintain this strong performance as we know that our customers expect us to protect the environment and its health is essential for our service.” Source: LTDS, Chapter 3 (Our ambition), p34</li> <li>“Our WINEP contains investment to protect habitats in water sources from which we abstract water and to reduce the spread of invasive non-native species, both of which are statutory requirements. In addition, we want to go further to deliver a programme of work that will enhance the River Eden and River Mole catchments, the health of which we are reliant upon for our abstraction operations, to explore a range of nature-based solutions to improve both the water quality and quantity in these rivers.” Source: LTDS, Chapter 3 (Our ambition), p36</li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (3 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<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</p>	<p>Our LTDS clearly sets out our long-term ambition and the outcomes the Company aims to deliver. The Board recognises that there are many uncertainties that may adversely impact our current future plans and has therefore ensured that management have considered a broad range of plausible scenarios to identify the potential impacts of those uncertainties.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>A core adaptive pathway has been developed to enable the Company to reach its long-term ambitions in the majority of future scenarios and represents our no and low regrets efficient investment plan.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>As a Board we had visibility of the long list of options that were considered for the delivery of our aspirational outcomes, and we supported the adoption of the Copperleaf framework and optimisation tools to ensure the Company invests in the solutions that best deliver value for both our current and future customers.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>The Board supports the Company delivering activities such as leakage reduction and increased community engagement that are likely to be essential in all scenarios, and the plans that ensure we will have taken the necessary preparatory steps to take advantage of the optimised adaptive pathways we have identified, should the need arise, such as the planned WINEP programme on the River Eden that will help secure greater resilience for the range of potential future uncertainty that we face from issues such as climate change and population growth, whilst also allowing us to meet tougher environmental standards.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>The Board understands that the LTDS has to be underpinned by a number of key assumptions and is confident that the assumptions used reflect our best current knowledge and informed predictions for the future.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>The Board specifically notes the dependence of our LTDS on our WRMP, that has been developed to accurately reflect the regional plan developed by WRSE. The Board is satisfied that the Company's data inputs to that process have been externally assured by Atkins and Artesia, the regional plan has been independently assured by Jacobs under the guidance of the WRSE Executive Team and notes the uncertainties that highlight the dependence of our plan on the stability of the regional plan.</p>	<p>We have seen evidence of SES Water stating that the WRMP accurately reflects the Regional Resilience Plan 2024 (RRP2024) in the revised draft submission of the WRMP:</p> <ul style="list-style-type: none"> <li>• <i>“The Company has ensured that this WRMP accurately reflects the Regional Resilience Plan 2024 (RRP24) developed by WRSE and has been developed in accordance with the national framework and relevant guidance and policy.” Source: Our Water Resources Management Plan 2025 to 2075: REVISED DRAFT, August 2023, p131</i></li> </ul> <p>We have seen evidence of SES Water's WRMP data inputs having undergone external assurance from Atkins and Artesia in the revised draft submission of the WRMP:</p> <ul style="list-style-type: none"> <li>• <i>“Where we have developed the data inputs, including the micro-components analysis, supply and demand forecasts and options, this has been subject to the assurance process in place with our consultants at Atkins and Artesia. The data has also checked by the technical leads at SES. In addition, we have been subject to external auditing commissioned by WRSE, with these findings presented to the Senior Leadership Team for their review and sign off and reflected as appropriate in this dWRMP. A separate document on the WRSE assurance process will be published alongside the draft regional plan. Source: Our Water Resources Management Plan 2025 to 2075: REVISED DRAFT, August 2023, p130</i></li> </ul> <p>SES Water has confirmed to PA Consulting that the recommendations provided by Atkins and the associated cost estimates have been reviewed and the costs incorporated in to the Business Plan. Source: Confirmed via email by Liam Ahearne, Head of Strategic Projects (SES Water), to PA Consulting on 28/09/2023</p>



# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (4 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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</b></p>	<p>The Board has agreed the monitoring plan that will ensure the Company can respond appropriately to changes in the external operating environment such that the LTDS is refined and adjusted over time, and alternative adaptive pathways are triggered if required.</p>	<p>SES Water has confirmed to PA Consulting that the Board has seen evidence of the monitoring plan agreed for the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>“Determination of a monitoring plan was identified as a step in the process at the presentation in July 2023 and it is presented in the LTDS, the Board discussed the core and alternative pathways at the meeting. Subsequently, the Board reviewed and approved the LTDS statement in August and September Board meetings.”</i></li> <li>• <i>“The Board discussed at that meeting the core and alternative pathways – but also the full Board reviewed the LTDS statement in August and September where these conclusions were documented with no further comment”.</i></li> </ul> <p>Source: Confirmed via email by Nicola Houlahan, SES Water Quality and Compliance Director, and Paul Kerr, SES Water CFO to PA Consulting on 28/09/2023</p>
	<p>The Board recognises that the strategic choices available reflect a small water company and the limited Company resources, but is confident that our proven past innovation, our approach to seeking solutions that deliver multiple benefits and our planned future collaboration to optimise solutions and deliver maximum benefit will result in a deliverable, proportionate and efficient outcome programme.</p>	<p>Board opinion; no supporting evidence required.</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (5 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board is confident that the LTDS will enable the Company to meet its statutory and licence obligations, both now and in the future</b></p>	<p>Our LTDS considers the long-term targets set by the Government and our regulators in legislation and regulation, and government policy expectations. This includes the Government's Strategic Policy Statement to Ofwat, the Environmental Improvement Plan to support the Environment Act and the UK Government's Plan for Water.</p>	<p>We have seen evidence of the LTDS considering targets set Government and regulations in Chapter 2 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"Our LTDS includes the long-term targets set by the Government and our regulators in legislation and regulation that we must meet, and government policy expectations. This includes the Government's Strategic Policy Statement to Ofwat, the Environment Act, the Environmental Improvement Plan, and the UK Government's Plan for Water, among others." Source: LTDS, Chapter 2 (Introduction to our LTDS), p10</i></li> </ul>
	<p>The Board endorses the LTDS approach to maintain an assumption that there are no material changes to the legislation outlined above, and no transfer of supply pipe ownership from private to Company ownership or introduction of retail competition.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>Our LTDS looks ahead and sets out where we expect to need further enhancement expenditure in the future to achieve our long-term outcomes and ambition and to maintain alignment with all regulatory requirements.</p>	<p>We have seen evidence of SES Water setting out where it expects additional enhancement expenditure in the future to achieve long-term outcomes and ambition in alignment with regulatory requirements in Chapter 2 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"Our LTDS identifies the investment required over the next five years and beyond. This is the no/low regrets investment that is required in most future scenarios we may face and represents our core adaptive pathway." Source: LTDS, Chapter 2 (Introduction to our LTDS), p8</i></li> <li>• <i>"Our ambition has been informed by statutory, regulatory and policy requirements and strategic priorities for the water industry (including the Government's Strategic Policy Statement to Ofwat, our WRMP, WINEP, the Government's Environmental Improvement Plan to support the Environment Act and its integrated Plan for Water." Source: LTDS, Chapter 2 (Introduction to our LTDS), p11</i></li> </ul>
	<p>The LTDS incorporates the outputs of our WRMP, that has itself been informed by the WRSE regional plan, and both meet the requirements of the Water Resources Planning Guideline (WRPG) produced by the Environment Agency and Ofwat.</p>	<p>We have seen evidence of SES Water stating that the WRMP has been informed by the WRSE RRP24 and meets the requirements of the WRPG in the revised draft submission of the WRMP:</p> <ul style="list-style-type: none"> <li>• <i>"This is our Water Resources Management Plan 2024 (WRMP24). It is prepared as a technical document following the principles and requirements of the Water Resources Planning Guideline (WRPG, the Guideline), set by our regulators – the Environment Agency, Ofwat and Natural England. We have worked with neighbouring water companies – Affinity Water, Portsmouth Water, South East Water, Southern Water and Thames Water – forming part of Water Resources South East (WRSE), to plan for a greater horizon of 50years." Source: Our Water Resources Management Plan 2025 to 2075: REVISED DRAFT, August 2023, p1</i></li> </ul>
	<p>The WRSE reported pathway, used as the basis for our revised WRMP published in August 2023 and considered as defining the best value route to meet statutory requirements and regulatory and policy guidance, was externally assured for WRSE by Jacobs.</p>	<p>We have seen evidence that the WRSE report pathway was externally assured for WRSE by Jacobs. Source: WRSE QA Method Statement &amp; WRSE Assurance Annex</p>
	<p>The Board is confident that the future plans and enhancement expenditure identified will ensure the Company meets all statutory and licence obligations, building on the base expenditure that supports our current level of regulatory compliance.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>Our LTDS and business plan specifically include efficient costs for the Company-specific statutory obligation to partially soften 80% of the water we supply.</p>	<p>We have seen evidence of SES Water stating its commitment to water softening in Chapter 3 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"We'll also continue to meet our statutory obligations to soften 80% of the water we supply to a medium hardness of 80 mg/l on average." Source: LTDS, Chapter 3 (Our ambition), p27. See Section 7: Assessment of Existence of Evidence Cited in relation to Costs and Outcomes Board Assurance Statement for further evidence on SES Water's statements in relation to cost efficiency.</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (6 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the LTDS is based on adaptive planning principles</b></p>	<p>Our LTDS sets out the long-term outcomes the Company aims to deliver and explains how they will be met under a range of plausible scenarios.</p>	<p>We have seen evidence of the LTDS setting out SES Water's long term outcomes in Chapter 3 of the LTDS.  <i>Source: LTDS, Chapter 3 (Our ambition), Section B ("Our outcomes and performance ambitions for 2050")</i></p>
	<p>The Board is satisfied that monitoring is in place and key decision and trigger points have been identified to ensure our planned investment profile can be adapted if needed in the future, so that it continues to meet the expectations of our customers, irrespective of new challenges.</p>	<p>We have seen evidence of a plan for monitoring investment based on key decision points in Chapter 2 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"Each [alternative adaptive pathway] has a decision point and trigger point that identifies when we would need to move from one to another. We will monitor the scenarios closely so that we know when we are approaching a trigger so that we will be ready to make the decision to move to an alternative pathway, if appropriate."</i> <i>Source: LTDS, Chapter 2 (Introduction to our LTDS), p9</i></li> <li>• <i>"We identified the relevant decision points, indicating when a decision needs to be taken to deliver our ambition, and trigger points (the point at which an alternative pathway needs to be followed). Decision points and trigger points were determined on a case-by-case basis for the alternative adaptive pathways."</i> <i>Source: LTDS, Chapter 2 (Introduction to our LTDS), p14</i></li> </ul>
	<p>The Board has reviewed the approach taken to using the Copperleaf Value Framework and Optimisation Tool to determine the optimised projects and activities relevant to each scenario and how that has been used to define the core and adaptive pathways.</p>	<p>We have seen evidence of Board minutes and/or papers discussing Copperleaf to determine the optimisation process for each scenario to help define the core and adaptive pathways:</p> <ul style="list-style-type: none"> <li>• <i>Board requested that management provide further detail on value framework, including measures of risk and success, implementation plans etc. Management reviewed value framework options, including the proposed criteria to be used and the potential use of Copperleaf systems solution to drive value framework decisions. Board approved management's approach to the value framework and use of Copperleaf as systemised solution.</i> <i>Source: SES Water Board meeting (November 2022)</i></li> </ul>
	<p>External assurance of the Company's approach to developing the preferred plan and quantifying the needs and service impacts for each area was provided by Mott Macdonald as set out in Appendix SES012A.</p>	<p>We have seen evidence of external assurance carried out by Mott MacDonald on the inputs to and outputs from Copperleaf:</p> <ul style="list-style-type: none"> <li>• <i>"Mott MacDonald provided assurance of SES's PR24 investment planning approach using Copperleaf. The report found that SES's approach to options appraisal presented a lean methodology. The approach shows the prioritisation of maintaining service and delivering regulatory and statutory drivers. This was demonstrated through the use of SES's value framework, which presents an overall monetised value for all options. SES's process and use of value measures through the planning process evidences a best value approach to development of the business plan."</i> <i>Source: SES PR24 Copperleaf Assurance report, Mott MacDonald, August 2023 – Summary of findings, recommendations and conclusion</i></li> </ul> <p>Mott MacDonald have provided assurance on non-financial data tables; these findings were not available to PA Consulting before the finalisation of this report. SES notified PA that all assurance has been completed and any outstanding comments from the Mott MacDonald assurance report would be addressed by SES ahead of Board sign-off and Ofwat submission.</p>
	<p>The Board supports the core adaptive investment pathway to 2050 that has been identified by the Company as that representing the optimal investment plan for the delivery of our ambition under current and most likely future conditions, considering the eight common reference scenarios provided by Ofwat (relating to climate change, demand, abstraction reductions and technology) and the two further bespoke scenarios identified by management as those that account for the company-specific factors of potential customer bad debt and potential supply chain disruption.</p>	<p>Board opinion; no supporting evidence required.</p>
<p>The Board supports the alternative adaptive pathways that have been developed, including our WRMP adaptive pathway (required if our WRMP deviates from the core pathway in 2035, as per our draft WRMP) and our high resilience adaptive pathway (required if we experience more adverse climate change).</p>	<p>Board opinion; no supporting evidence required.</p>	





# Business Plan and LTDS Assurance: PA Consulting findings

LTDS (7 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board is satisfied that the LTDS has been informed by meaningful engagement with our customers</b></p>	<p>Insight from the Company's multi-tiered customer research and engagement programme, and challenge from the customer scrutiny panel (CSP) and environmental scrutiny panel (ESP), helped set the outcomes we plan to deliver, the level of ambition, the investment options selected and the planned timing and sequencing of the future investment programme.</p>	<p>We have seen evidence – both in Chapter 2 of the LTDS and the CSP/ESP report - that detail SES Water's approach to customer research and how customer engagement has been incorporated into the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"We have engaged extensively with our customers and customer representatives to ensure that our LTDS reflects the views of customers and other stakeholders. We produced an early look at our vision and ambition in October 2022 for customer feedback (Appendix SES002 LTDS – Long term Ambitions and Priorities) which we considered, alongside insight from our customer research programme. This included challenge from both our Customer (CSP) and Environmental Scrutiny Panels (ESP) on our level of ambition, the timing and sequencing of our investment programme and the options we have included."</i> Source: LTDS, Chapter 2 (Introduction to our LTDS), p10</li> <li>• <i>"We are happy to provide assurance that the company's customer engagement and research has met the standards for high quality research set out by Ofwat in its 2022 positioning paper, as well as other external definitions of high quality research, and that this has been used to inform the development of the LTDS and PR24 business plan. We are happy to provide assurance that a proper appraisal of options has taken place. In our view, the draft business plan does a good job of balancing the options, taking customer preferences into account while also maintaining focus on the long-term interests of customers, communities and the environment."</i> Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</li> </ul>
	<p>The Board has ensured that the Company has considered the collaborative industry research of Ofwat and CCW and engaged extensively with customers, customer representatives and wider stakeholders through their own bespoke research programme to ensure that our LTDS reflects their views.</p>	<p>We have seen evidence of the Board ensuring that SES Water has considered research from Ofwat and the CCW in its customer engagement programme:</p> <ul style="list-style-type: none"> <li>• <i>"SES Water has drawn on a wide range of techniques and data sources, including insights from PR19 and the development of its current company Purpose, citizen panels, research conducted as part of its Water Resource Management Plan research, bespoke research for PR19 and the collaborative research mandated by Ofwat and CCW as part of the LTDS/price review process".</i> Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, p9-p10</li> </ul> <p>We have seen evidence of Board minutes and/or papers confirming that the LTDS reflects their views around customer engagement:</p> <ul style="list-style-type: none"> <li>• <i>The Board reviewed the Customer Engagement Plan and challenged management to ensure effective alignment with Ofwat process, engagement of CSP as part of overall customer assurance work and to provided the Board with further details on Bespoke 1 &amp; 2 research. Management reviewed the items with the Board in the session as detailed in the deck - and reviewed the approach to Bespoke 1 and 2 work. Board approved customer engagement plan.</i> Source: SES Water Board meeting (September 2022)</li> </ul>
	<p>The Board is pleased to note that the Company addressed the reported shortcomings in the customer research conducted at PR19 through the engagement of multiple external support agencies and increased research channels and processes, increasing the response rates that informed our future strategy.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>The Board is satisfied that the approach to customer research ensured wide-ranging coverage of the demographic, socio-economic and age profile of the customer base, including future bill-payers and those classed as vulnerable, resulted in a strategy that is closely aligned to our true customer base.</p>	<p>We have seen evidence of SES Water's wide-ranging coverage of customer research at PR24:</p> <ul style="list-style-type: none"> <li>• <i>"We are satisfied with the company's efforts to understand and respond to the diverse needs of its existing customers, including those in vulnerable circumstances.... the company's improved understanding of different segments of its customer base, the communities it serves and the key stakeholders in its catchment area has been very impressive"</i> Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, p8 and p15</li> </ul>



# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (8 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board is satisfied that the LTDS has been informed by meaningful engagement with our customers</b></p>	<p>The Board is confident that the bespoke research included genuine choices for customers in the areas of performance and investment that they could meaningfully influence, and that the final strategy proposed only includes costs that are over and above those that satisfy minimum legal and regulatory requirements where there was clear evidence of customer support.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>In response to customer feedback the Board has supported the delivery of a faster reduction in leakage than may have otherwise been proposed; a lead pipe replacement programme focused on areas of highest risk; and the delivery of a non-statutory enhanced environmental programme, as research confirmed those customer preferences. As there was low support for fast-tracking our carbon emission programme, that option will not be progressed.</p>	<p>We have seen evidence of the LTDS setting out research confirming customer preferences in Chapter 3 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>“Customers have told us lead replacement is an area that they expect us to invest in over the next 25 years.” Source: LTDS, Chapter 3 (Our ambition), p27</i></li> <li>• <i>“When presented with investment options, only 25% of customers chose for us to reduce leakage by 50% by 2050 with 75% of customers surveyed choosing for us to go further than the Government target. 40% expected us to reach the target more quickly, while others would prefer us to go further, and they want us to prioritise this investment over other areas.” Source: LTDS, Chapter 3 (Our ambition), p31</i></li> <li>• <i>“Customers are supportive of this additional investment in our environment, with 72% of customers opting for us to go further than our statutory environmental requirements.” Source: LTDS, Chapter 3 (Our ambition), p36</i></li> <li>• <i>“Throughout our research programme customers have had polarised views about how quickly we achieve net zero. When presented with choices about how quickly we reach net zero and the cost of doing so, the majority (78%) of customers supported us achieving the Government’s 2050 target, with half of customers choosing the option that had no additional impact on their bill. Just over a quarter supported us making more rapid progress to reach net zero operational emissions by 2030, a 75% reduction in total carbon by 2035 and net zero by 2050. Having assessed the rate at which decarbonisation of the grid is happening and the impact that our ongoing work to reduce water use, become more energy efficient and reduce our reliance on fossil fuels will have, we have determined that aligning with the Government’s target is the appropriate level of ambition and we don’t have customer support to increase bills to go further in this area.” Source: LTDS, Chapter 3 (Our ambition), p35</i></li> </ul>
	<p>The CSP report is set out in Appendix SES040 – Customer and Environmental Scrutiny Panels – Final Assurance Report and provides independent assurance to the Board that the LTDS has been informed by customer engagement.</p>	<p>We have seen evidence from the CSP that the LTDS has been informed by customer engagement:</p> <ul style="list-style-type: none"> <li>• <i>“We are happy to provide assurance that the LTDS is being informed by customer engagement according to the eight principles set by Ofwat in its February 2022 positioning paper, based on the evidence available to us as at 5 September 2023. Both the initial LTDS scoping document and the draft LTDS itself reflect SES Water’s understanding of customer preferences based on engagement conducted (inter alia) for the new company purpose. The draft LTDS has changed in significant ways from the ambitions in the original scoping document in light of customer engagement carried out since it was published.” Source: Final Assurance Report (v1.6) on SES Water’s Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

LTDS (9 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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</b></p>	<p>In developing our LTDS, the Board has considered the level of performance the Company is aiming to achieve between 2025 and 2050 and the balance of the improvement that can be delivered from base expenditure versus the extra investment needed through phased enhancement expenditure.</p>	<p>We have seen evidence of Board minutes and/or papers considering level of performance improvement that can be delivered through base expenditure versus potential enhancement expenditure:</p> <ul style="list-style-type: none"> <li><i>The Board reviewed the proposed areas for "choices" and associated spend by management, challenging on the split between base and enhancements, the ambition on the proposed choices and overall efficiency considerations. Management explained the initial set of choices, especially the need for enhancement cases (ECs) aligned to our proposed ambitions and priorities. Board reviewed and challenged to ensure an alignment of key choices with base and enhancement claims. Board approved initial list of key initiatives and associated base/enhancement cases. Source: SES Water Board meeting (November 2022)</i></li> </ul>
	<p>In AMP7, the Board has supported the data-led approach being taken to reduce the number of void properties and an expanded debt recovery strategy that ensures we are billing all those that can and should pay, thereby ensuring fairness across all current customers; we will continue to promote this approach in AMP8.</p>	<p>PA Consulting is unable to comment on the Company's historic programme of engagement prior to PR24.</p>
	<p>Targeted customer engagement, including future bill payers, has been conducted to specifically consider the optional elements of the strategy, and the speed of delivery, and where customers were satisfied with the current level of Company performance, such as with supply interruptions, and had other higher priorities, the Board supported deferral of planned additional mains replacement to a future date.</p>	<p>We have seen evidence from SES Water's Bespoke 2 research which considered specific customer research on optional elements of the LTDS, including speed, performance and prioritisation of delivery.</p> <p>Customers were introduced to 11 key water services that SES Water considered when developing long-term investment plans. Descriptions were provided for each water service and customers were asked to rank their top 5 of what they believed were the most important or top priority for SES Water to consider. Customers were also taken through 5 different investment areas. They were provided with a description of the issue and the benefits and disbenefits of the associated investment. Customers were asked a generic question around the specific area to test understanding and awareness, and then asked to state how important they believed investment in this area to be. For example,</p> <ul style="list-style-type: none"> <li>Customers ranked leakage reduction as the most important area to invest.</li> <li>Environmental improvements, based on improvements to the local area, ranked more highly than Carbon Net Zero, a global environmental issue.</li> <li>Views on Lead were evenly spread across the priority order</li> <li>Most customers did not prioritise investing in smart meters.</li> </ul> <p>Customers were then presented with a series of investment scenarios, with a description of the proposed investment and outcomes and the associated bill impact for the years 2030 and 2050 together with a total cost over the 25-year period.</p> <p><i>Source: CSP meeting slides shared by Dan Le Roux (Head of Customer Insights &amp; Analytics) to PA Consulting via email on 06 09 2023 ("CSP – PR24 research programme", 29 June 2023)</i></p>

# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (10 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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</b></p>	<p>The Board has considered the overall bill profile impacts of both the longer-term strategy and the immediate business plan and adapted the proposals for PR24 accordingly.</p>	<p>We have seen evidence from SES Water's Bespoke 2 research which considered the overall bill impact as part of the customer engagement programme.</p> <p>Modelled bill impacts for 2030 and 2050 were based on alternative scenarios that accounted for commitments to meet certain performance levels, including long-term performance on leakage, environmental improvements, lead reduction, carbon net zero targets and smart metering, and the resulting bill impacts from meeting a range of targets by 2050 and beyond.</p> <p><i>Source: CSP meeting slides shared by Dan Le Roux (Head of Customer Insights &amp; Analytics) to PA Consulting via email on 06 09 2023 ("CSP – PR24 research programme", 29 June 2023)</i></p>
	<p>Our preferred business plan was tested for customer acceptability and affordability in line with the methodology specified by Ofwat and independent assurance from the CSP confirms "the company has done everything it can to drive outcomes informed by both long-term affordability and fairness" (Appendix SES040).</p>	<p>We have seen evidence from the CSP that the LTDS has considered long-term affordability and fairness between current and future customers:</p> <ul style="list-style-type: none"> <li><i>"In our view, the company has taken all the steps necessary to provide customers and stakeholders with the information required for them to fully understand the implications of their preferences for investment. They have also included some future bill payers in this engagement. Given that the LTDS runs to 2050, and many people who will be paying SES Water bills in 2050 have not been born yet, there is an inherent bias towards the needs and interests of current customers in the way this research and engagement has been conducted. However, this is a function of Ofwat's methodology and not of the way that SES Water has structured its work. We are comfortable in assuring that the company has done everything it can to drive outcomes informed by both long-term affordability and fairness." Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> </ul>
	<p>In support of our 2050 ambition of eliminating water poverty, the Board supports an on-going focus on identifying and supporting customers who need financial help, including the support of up to 25,000 customers in AMP8.</p>	<p>We have seen evidence of SES Water stating these commitments in Chapter 9 of the Business Plan:</p> <ul style="list-style-type: none"> <li><i>"Our ambition is to eliminate water poverty by 2050, meaning that no customer is putting more than 5% of their disposable income towards their water bill. We have made significant progress towards this in AMP7. The Water Report in February 2023<sup>2</sup> reported that we had the second highest scheme take up per 10,000 household customers of any water company in England and Wales in 2021/22, despite having one of the most affluent customer bases. Almost 19,500 customers receive a 50% discount on their water bill through our Water Support tariff today and 98% of customers on support schemes pay on time. We are working to increase this number to 25,000 by 2025, which is a 78% increase from 2019. This will not be easy as despite increased efforts to raise awareness and remove barriers to accessing the tariff we have seen a net increase in the number supported of less than 100 customers since April 2023." Source: BP, Chapter 9 (Affordability), p3</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## LTDS (11 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long-term delivery strategy</b></p>	<p>The Board is satisfied that the PR24 business plan for 2025 to 2030 includes performance targets that are consistent with the first five years of the glidepaths developed to deliver expected performance at 2050.</p>	<p>We have seen evidence that the PR24 Business Plan includes performance targets that are consistent with the glidepath to 2050 in the LTDS in Chapter 6 of the Business Plan:</p> <ul style="list-style-type: none"> <li>• <i>“It is important the common PC level is stretching, but achievable. In Table 4 below, we present our proposed PC levels for the PR24 period and an indication of performance glidepaths to 2050.” Source: BP, Chapter 6 (The outcomes we will deliver), p15</i></li> <li>• <i>“That said, our long-term ambition is to eliminate supply interruptions longer than three hours by 2050 and the performance glidepath we propose will deliver this via a combination of base and enhancement expenditure over the longer term.” Source: BP, Chapter 6 (The outcomes we will deliver), p20</i></li> </ul>
	<p>The Board has ensured that the business plan allows for the base expenditure and specific enhancement investment needed to deliver the core pathway identified and supported by customers.</p>	<p>We have seen evidence of Board minutes and/or papers considering level of performance improvement that can be delivered through base expenditure versus potential enhancement expenditure:</p> <ul style="list-style-type: none"> <li>• <i>The Board reviewed the proposed areas for “choices” and associated spend by management, challenging on the split between base and enhancements, the ambition on the proposed choices and overall efficiency considerations. Management explained the initial set of choices, especially the need for enhancement cases (ECs) aligned to our proposed ambitions and priorities. Board reviewed and challenged to ensure an alignment of key choices with base and enhancement claims. Board approved initial list of key initiatives and associated base/enhancement cases. Source: SES Water Board meeting (November 2022)</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

LTDS (12 of 12)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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 SES053 PR24 Governance Framework, and in the external assurance evidence report produced by PA Consulting to accompany its assurance letter to the Board, included in Appendix SES012 External Assurance. Examples include:</b></p> <ul style="list-style-type: none"> <li>The Board has been closely involved in defining and challenging the long-term ambition that was considered in light of the scenarios prescribed by Ofwat and those identified by the Company in firstly determining and then refining, through the use of the Copperleaf decision making tool, the potential investment solutions; and</li> <li>The Board approved the optimal core pathway following the opportunity to review and challenge the key choices and associated recommendations to achieve our proposed long-term ambitions, and the process being followed to substantiate them, at a key Board meeting held on 7 February 2023</li> </ul> <p><b>In order to arrive at the view that its strategy is the best it can be, the Board has:</b></p>	<p>Defined a clear ambition in support of a clear Company purpose and vision, and has ensured that the final LTDS sets out to secure outcomes that align to that ambition, whilst adequately considering the potential future risks to delivery through adaptive planning</p>	<p>We have seen evidence of a clear ambition statement and commitments from the Board in support of the company purpose and vision that is aligned to the overall LTDS. The ambition focuses on priority areas including:</p> <ul style="list-style-type: none"> <li>Providing high-quality water from sustainable sources</li> <li>Delivering a resilient water supply from source to tap and minimise wastage</li> <li>Helping reduce water footprint and charge a fair, affordable price for what consumers use</li> <li>Improve the environment and have a positive impact on our local area</li> </ul> <p>Source: Annex SES002 LTDS Long-Term Ambitions and Priorities</p>
	<p>Supported the engagement of external expert resources to assist with the development of the strategy and commissioned external assurance of key components</p>	<p>We have seen evidence of Board minutes and/or papers detailing support for external expert resources:</p> <ul style="list-style-type: none"> <li>Board requested an update on External Resource requirements to support programme. Proposed external resources discussed with Board for approval including Create 51 (overall LTDS support and editing), CEPA (main economic and regulatory adviser), BRG (supplementary LTDS regulatory and other support), Motts (external assurance), NERA (external assurance including financial modelling and resilience) and Atkins (engineering costing support). Board approved management's recommendations on support. Source: SES Water Board meeting (February 2022)</li> <li>The Board reviewed the proposed Board assurance programme, requesting that management ensure appropriate balances is provided across various internal and external assurance providers - and that all aspects of expected Board assurance are covered. Management reviewed with the Board the split of internal and external assurance work, noting the key risk and overtly technical areas of the plan that would require external assurances - such as NERA on financing - and the overall role of PA Consulting in the overall Board assurance work. Board approved overall assurance plan. Source: SES Water Board meeting (September 2022)</li> </ul>
	<p>Challenged management to ensure the final strategy is proportionate to the Company size and resources available and builds on our historic performance and areas of proven innovation to ensure it is deliverable</p>	<p>We have seen evidence of Board minutes and/or papers challenging management on deliverability aspects of the final strategy which has since been reflected in Chapter 10 of the Business Plan:</p> <ul style="list-style-type: none"> <li>Board asked how are we showing to Ofwat that we can deliver such a step up in investment programme - answer the deliverability concern. Management stated that the "Making it Happen" [BP chapter 10] will focus on the deliverability aspect of the plan to give Board confidence that plan can be delivered. Source: SES Water Board meeting (June 2023)</li> </ul> <p>SES Water has confirmed to PA Consulting that the Board have received verbal updates in multiple Board meetings as well as a summarised commentary within the executive summary of the PR24 Business Plan. Source: Confirmed via email by Tom Kelly, Wholesale Director (SES Water), to PA Consulting on 27/09/2023</p>
	<p>Ensured that ongoing base costs have been benchmarked against Ofwat industry datasets and enhancement costs are aligned to the forecast changes in performance and project delivery in AMP8.</p>	<p>The Board reviewed the base cost benchmarking in the July and September 2023 Board meetings, the Board noted and agreed in particular the proposals to fill in any 'gaps' with CACs. The CACs were subsequently reviewed by a senior member of the Board. Source: Confirmed via email by Paul Kerr, SES Water CFO to PA Consulting on 28/09/2023</p>
	<p>Ensured that the strategy reflects customer views and inputs and is both acceptable and considered affordable in the longer term.</p>	<p>We have seen evidence of Board minutes and/or papers reflecting customer views and affordability of overall long-term strategy:</p> <ul style="list-style-type: none"> <li>Board requested better understanding on affordability of programme and impacts on customer bills. Separate sessions held with Murray Legg and then full board to understand the Bill impacts once finalised. This included comparison to customer research and A&amp;A testing. Board's review ensured that appropriate bill profiles were concluded with management and all customer research was duly considered. Source: SES Water Board meeting (June 2023)</li> </ul>



# 06

**Assessment of Existence of  
Evidence Cited in relation to  
Affordability (LTDS and  
PR24 Business Plan) Board  
Assurance Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## Affordability (1 of 3)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement <sup>1</sup>	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p> <p><b>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.</b></p>	<p>The Board recognises that the number of customers experiencing financial hardship has increased as the cost of living has risen. Following review of evidence provided by the Company, the Board is confident that SES Water has taken all reasonable steps to consider the implications of the business plan on the future bills for all customers and customers' ability to pay.</p>	<p>We have seen evidence from the CSP and Chapters 5 and 9 of the Business Plan that the Board can be confident SES Water has taken all reasonable steps to consider the full implication of the Business Plan on future bills and customers ability to pay:</p> <ul style="list-style-type: none"> <li>• <i>"We can provide assurance that the company has taken all appropriate steps to ensure that the customers and stakeholders whose preferences were examined were in possession of the information and context necessary for them to take informed decisions. We are satisfied that the full implication of the 2025-30 business plans in terms of customer affordability has been considered as an integral part of the planning process. The 2025-30 business plan was discussed in detail in a series of online qualitative groups. It was well received and participants were highly engaged with the topics." Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> <li>• <i>"There is increased funding for the financial support programme to help those in our area who are most financially vulnerable. The plan will also help customers reduce their bills via the installation of smart meters and the provision of the associated data. Progressive tariffs and the reduction of voids will also improve affordability and fairness for all." Source: PR24 BP, Chapter 5 (Our customers and their priorities), p24</i></li> </ul> <p><i>"We will also offer a range of other schemes that are designed to help our customers who are struggling to pay. These include:</i></p> <ul style="list-style-type: none"> <li>• <i>Water Sure - A capped tariff for metered customers that protects eligible households with large families or certain medical conditions from paying more than an average household;</i></li> <li>• <i>Helping Hand - A new grant-based scheme that will write off eligible customers' debts, subject to them meeting agreed payment plan for current usage. This replaces our old Clear Start scheme;</i></li> <li>• <i>Breathing Space - Our payment pause scheme offering customers 90 days' breathing space to help them get back on their feet."</i></li> </ul> <p><i>Source: PR24 BP, Chapter 9 (Affordability), p9</i></p>
	<p>The impact at PR24 has also been considered in light of the Company's LTDS and our longer-term ambitions, and the business plan balances the immediate investment requirements needed to ensure we meet our regulatory obligations and maintain the consistent delivery of high-quality water with plans to ensure the longer-term resilience and improvements that will serve future bill payers and benefit the environment</p>	<p>SES Water has confirmed to PA Consulting that the Business Plan has been considered within the context of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"The Plan for PR24 delivers the first five years of our LTDS. It has been influenced by customer engagement and the overall impact to bills in the shorter and longer term and includes investment needed to address risk of regulatory failure (e.g. installation of UV to maintain wholesomeness of water, upgrades to security to address SEMD requirements, investment at Kenley to ensure we can soften water.)"</i></li> </ul> <p><i>Source: Confirmed via email by Nicola Houlahan, Quality and Compliance Director, to PA Consulting on 27/09/2023</i></p>
	<p>The Board is confident that the Plan delivers value for money, balancing the delivery of business as usual, planned improvements to service levels and the resultant impact on bills, both in the short term and phased over the longer term.</p>	<p>Board opinion; no supporting evidence required.</p>

1. See PR24 Business Plan Section 11 Governance and assurance\_v8





# Business Plan and LTDS Assurance: PA Consulting findings

## Affordability (2 of 3)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p> <p><b>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.</b></p>	<p>In ensuring the business plan delivers value for money, the Board has challenged the Company to be innovative and efficient, such as in the targeting of lead pipe replacement where those more vulnerable are most likely to benefit; working in partnerships to deliver improvements to the environment and raw water quality; and in the acceleration of smart meter penetration to better manage water usage efficiency and leakage.</p>	<p>We have seen evidence of Board challenge to Company management to encourage greater efficiency and/or innovation:</p> <ul style="list-style-type: none"> <li>Digital Strategy and IT security teams meet regularly with an Audit Committee and the Board to discuss delivery of innovative solutions, extending to PR24 solutions. For example, three approaches were presented for the delivery of the Smart Metering programme, with Board opting for short-term delivery. <i>Source: Information provided by Jeremy Heath, SES Water Innovation Manager, to PA Consulting on 07/09/2023</i></li> <li>We have had identified several emails with discussion between the CEO and working level teams across SES Water advising on the innovative solutions SES Water should be involved in as part of Ofwat's innovation fund. <i>Source: Email exchange between Ian Cain, CEO and Jeremy Heath, SES Water Innovation Manager on 29/08/2023, provided by Jeremy to PA Consulting on 07/09/2023.</i></li> </ul>
	<p>The Board has agreed that the 1% ongoing efficiency target applied to all CAPEX and OPEX forecasts for AMP8 represents an appropriate and stretching target that helps keep bills affordable for customers whilst ensuring the Company will still be able to maintain its asset base and deliver service improvements.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board has agreed that the 1% ongoing efficiency target is appropriate and stretching for the Company and helps keeps bills affordable for customers:</p> <ul style="list-style-type: none"> <li><i>The use of Frontier Shift terminology in documents was not deemed clear to the common reader. A more thorough consideration of frontier shift efficiency was achieved by the Board through this session, with a 1% ongoing efficiency rate approved by the Board to be incorporated into the Business Plan. Our adaptive plans that have informed our enhancement claims for AMP8 and our core pathway has been underpinned by our modelling in the Copperleaf tool, feedback from the customer engagement process and a number of key technological choices we consider will provide best value to deliver on our outcome ambitions (e.g. faster rollout of smart meters and investments in resilience). Source: SES Water Board meeting (July 2023)</i></li> </ul>
	<p>Where choices of investment have been available, either in the approach adopted, addressing alternative rates of solution delivery or enhancements beyond our statutory requirements, the Board has ensured the chosen solution represents best value for current bill payers through the adoption of a specialist asset and infrastructure investment planning tool (Copperleaf), seeking customer views ('Bespoke 2' customer research) and conducting affordability and acceptability testing of our preferred option proposals in-line with Ofwat guidance.</p>	<p>We have seen evidence of Board minutes and/or papers ensuring that the chosen solution(s) represent value for money, sought customer views, with preferred options having been through affordability and acceptability testing:</p> <ul style="list-style-type: none"> <li><i>The Board - while approving in principle the use of a value framework and Copperleaf in previous meetings - reviewed in detail with management the plan of implementation of the Copperleaf Solution with benefits. Challenge was provided to management on the Copperleaf optioneering abilities, overall costings matters and water-sector specific background. Board approved use of the new solution and the implementation plan associated with Copperleaf and management's overall plans for the value framework. Source: SES Water Board meeting (December 2022)</i></li> <li><i>The Board reviewed the Customer Engagement Plan and challenged management to ensure effective alignment with Ofwat process, engagement of CSP as part of overall customer assurance work, and to provide the Board with further details on Bespoke 1 &amp; 2 research. Management reviewed the items with the Board in the session and reviewed the approach to Bespoke 1 and 2 work. Board approved customer engagement plan. Source: SES Water Board meeting (September 2022)</i></li> <li><i>Board requested better understanding on affordability of programme and impacts on customer bills. Separate sessions held with Murray Legg and then full board to understand the Bill impacts once finalised. This included comparison to customer research and A&amp;A testing. Board's review ensured that appropriate bill profiles were concluded with management and all customer research was duly considered. Source: SES Water Board meeting (June 2023)</i></li> </ul> <p>We have reviewed an externally prepared report by Mott MacDonald assuring SES' approach to using Copperleaf to help develop its PR24 Business Plan and LTDS. There was evidence of a clear process and use of a value framework alongside incorporation of the Ofwat recommended common reference scenarios for adaptive planning. It was evidence that the development of the LTDS has been through an iterative and rigorous process using SMEs with Copperleaf supporting the decision making process with optimised outputs. The report showed no major concerns. <i>Source: SES PR24 Copperleaf Assurance report, Mott MacDonald, August 2023 – Summary of findings, recommendations and conclusion</i></p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Affordability (3 of 3)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p> <p><b>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.</b></p>	<p>Our final PR24 business plan delivers our routine statutory requirements and addresses specific challenges and proposed enhancements and the Board supports the proposed average water bill increase (excluding inflation) of £25 by 2030 (a 10.5% increase on 2024/25) and the proposed bill profile across AMP8.</p>	<p>We have seen evidence from SES Water stating the proposed average water bill increase by 2030 in Chapter 9 of the Business Plan:</p> <ul style="list-style-type: none"> <li>• <i>"Our business plan will see bills rise by an average of £20 or 9% (before inflation) for the 2025-2030 period compared to 2024/25, or £39 or 19% including inflation."</i> Source: BP, Chapter 9 (Affordability), p4</li> </ul> <p>Board raised the desirability to have a smoother bill profile for AMP8, approving the proposed bill increase in 2024/25 and subsequent bill profile for AMP8.</p> <p>Source: SES Board meetings 15/09/2023 &amp; 27/09/2023.</p>
	<p>The Board acknowledges that despite the business plan being highly acceptable to customers as one that delivers against their priorities, some customers were concerned that it was not affordable against the back-drop of the current economic climate. The Board is therefore ensuring that measures to protect the most financially vulnerable are included as part of our plan, including our on-going support for up to 25,000 customers through the award of a social tariff. We are reassured by the feedback from the CSP that the proposals being presented to the Board "are affordable and avoid raising bills higher than necessary".</p>	<p>We present on p39 evidence from Chapter 5 of the Business Plan and the CSP/ESP report that outlines SES Water's approach to supporting their most vulnerable customers during PR24.</p>

# 07

## **Assessment of Existence of Evidence Cited in relation to Costs and Outcomes Board Assurance Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (1 of 15)



SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>In determining the degree of ambition to be applied to performance, the Board has considered the Company's historical rate of improvement, current and predicted end-of-AMP performance in all areas and the benchmarking of our performance against that of others in the industry.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board has challenged the Company's planned performance commitments:</p> <ul style="list-style-type: none"> <li>• <i>"Ensure that all initiatives are consistent between target and ambition"</i> Source: Rebecca Wiles challenge during SES Water Board meeting (November 2022)</li> <li>• Proposed PR24 PCs approved by Board, where the historical rates of improvement, current and predicted end-of-AMP performance were considered. Source: SES Water Board meeting (November 2022)</li> <li>• Draft PCL finalised and presented to Steering Committee on 29 March for further review and approval, where the historical rates of improvement, current and predicted end-of-AMP performance were considered. Source: Action during SES Water Board meeting (March 2023)</li> <li>• Proposed PCLs for AMP8 and beyond (to 2050) approved by Board, where the historical rates of improvement, current and predicted end-of-AMP performance were considered. Source: Action during SES Water Board meeting (July 2023)</li> <li>• The Board challenged the level of PCC ambition in the plan and the initiatives underpinning its delivery and recommended a further deep dive session to ensure the level of ambition was appropriately stretching. Source: SES Water Board meeting (July 2023)</li> <li>• Outcomes and Performance Commitment levels and supporting narrative around ambition for each Performance Commitment approved by Board. Source: Source: Action during SES Water Board meeting (July 2023)</li> </ul> <p>We have seen evidence of SES Water stating its performance commitments during PR24 in Chapter 6 of the Business Plan:</p> <ul style="list-style-type: none"> <li>• <i>"Our proposed stretching PC targets were defined in two stages. The first stage consisted of understanding the priorities of stakeholders (including Ofwat) for the PR24 period and gathering and understanding past industry performance on the various PCs. The second stage consisted of detailed quantitative work to set out proposed PC targets."</i> Source: PR24 BP, Chapter 6 (Outcomes we will deliver), p10</li> <li>• <i>"Base costs are relatively comparable between companies. We have therefore reviewed our costs and those of the rest of the industry. Our starting point for this analysis has been the wholesale base cost models that Ofwat has recently consulted on for PR24 for setting wholesale price controls."</i> Source: PR24 BP, Chapter 7 (Explaining our costs), p15</li> </ul>
	<p>The Board has positioned the proposed targets to be stretching, delivering improvements to our levels of service where appropriate to do so, and including some areas where we already have industry-leading performance, but also ensuring the targets are achievable and represent value for money for our customers.</p>	<p>We present evidence below of some of SES Water's proposed performance targets for 2025-2030 and beyond:</p> <ul style="list-style-type: none"> <li>• We will continue to keep our drinking water quality among the highest in the industry and strive to meet our CRI target of zero. We will maintain our upper quartile position on the number of customer contacts about water quality.</li> <li>• In PR24, we will maintain our upper quartile position on water supply interruptions and mains repairs and aim to achieve the same on unplanned outage.</li> <li>• We are industry leading in leakage in MI/d and have set ourselves an ambitious target of reducing leakage by 26.6% (from 2019/20 levels) by 2029/30, in line with the interim targets from the 2023 Environment Improvement Plan (EIP). In the longer-term, we plan to achieve a 50% reduction by 2040 and over 62% reduction by 2050.</li> <li>• We have a plan to improve our performance on the three quality of service measure of experience metrics (see Chapter 10 and Appendix SES013 - Household Customer Strategy) and aim to perform around or above the industry median for the PR24 period.</li> </ul> <p>Source: PR24 BP, Chapter 6 (Outcomes we will deliver), p3, Table 1</p> <p>Evidence relating to targets being achievable and representing value for money is addressed both later in this section and in Section 6.</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (2 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>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.</p>	<p>In some areas, such as leakage, our performance targets continue to deliver improvements on an already industry leading performance</p>	<p>We have seen evidence of SES Water’s commitment to maintain its industry performing performance in leakage during PR24 in Chapter 3 of the Business Plan:</p> <ul style="list-style-type: none"> <li>“Our leakage performance is among the best in the industry, below the industry average for the two comparative measures used by Ofwat. Against the leakage per property per day measure we rank second in the industry, while against the leakage per kilometre of water main measure we rank 5th and we have consistently been in the upper quartile of the industry over recent years. We are one of the minority of companies who have met their leakage reduction targets in every year of the current AMP.” Source: BP, Chapter 3 (About us and out track record), p14</li> </ul>
	<p>The Board have proposed maintaining the Company’s current level of good (upper quartile) performance for a number of performance commitments where the Company already performs well, but we have also supported a plan to deliver an appropriate degree of improvement in the areas that our stakeholders and customers have signalled they care about or are willing to pay more for during the customer and community engagement research.</p>	<p>We present evidence below of SES Water’s proposed PR24 performance commitments and planned areas of improvement as stated in Chapter 6 of the Business Plan:</p> <ul style="list-style-type: none"> <li>CRI: Continue to keep our drinking water quality the highest in the industry.</li> <li>WSI: Maintain upper quartile position and continue reduction, but at a slightly slower pace in the PR24 period, i.e. deliver WSI at 00:03:30 by end of AMP8</li> <li>Mains Repairs: Maintain upper quartile performance but deliver improvements at a slower pace in AMP8. Achieve a target of 54 repairs per 1,000 km of main by the end AMP8.</li> <li>Customer Contacts: Maintain upper quartile position and 0.6 contacts per 1,000 people –by improving working practices, softening, better engaged customers, enforcement and use of data.</li> <li>C-MeX: Perform consistently above industry median by embedding a customer-centric culture and leveraging our investments in digital and data-led transformation to consistently achieve.</li> <li>D-MeX: Improve service and aim to increase developer services customer satisfaction in order to perform above the median in the industry.</li> <li>BR-MeX: Work with retailers and take a customer-orientated approach to resolving frictions in the market. Deliver strong performance around the industry median.</li> </ul> <p>Source: PR24 BP, Chapter 6 (Outcomes we will deliver), Table 2</p> <ul style="list-style-type: none"> <li>“On Leakage, the WRMP plans for the statutory 50% leakage reduction by 2050 – our insight shows that customer expect us to go further/faster, with our proposed long-term ambition is to achieve this by 2040 (supported by 40%) and target a 60% reduction by 2050 (supported by 35%).” Source: CSP meeting slides shared by Dan Le Roux (Head of Customer Insights &amp; Analytics) to PA Consulting via email on 06 09 2023 (“CSP – PR24 research programme”, 29 June 2023)</li> </ul>
	<p>The Board has supported the inclusion of a single bespoke performance commitment for our legal requirement to deliver a partially softened water supply in areas where the raw water is naturally hard. For PR24, that will require specific investment to refurbish our Kenley treatment works and on-going capital maintenance at all other softening sites, as set out in our cost adjustment claim for softening [Appendix SES029 – Cost Adjustment Claim: Softening].</p>	<p>We have seen evidence of Board minutes and/or papers where the Board has supported the inclusion of a single bespoke performance commitment at PR24. We have also seen evidence of how the proposed water softening performance commitment will allow SES Water to meet its ongoing legal requirement in Chapter 6 of the Business Plan:</p> <ul style="list-style-type: none"> <li>Board reviewed the proposed Bespoke PC (softening) and the expected common PCs for PR24, challenging management to ensure no further bespoke PC related to SESW’s operational and financial positions were required. Management confirmed their process for determining the single softening bespoke PC - and the expected use of PCDs to manage ECs when submitted. Board challenged management with respect to other potential Bespoke PCs - such as debt related commitments - and eventually ensured only a single bespoke PC was submitted. Source: SES Water Board meeting (November 2022)</li> <li>“In PR24, we will retain our bespoke water softening PC to help ensure we can continue to provide over 80% of our customers with partially softened water. The refurbishment of our Kenley water treatment works, as well as capital maintenance on our other four treatment works that partially soften water, will contribute to meeting our target of softening water to a hardness level of 80 mg/l of calcium..” PR24 BP, Chapter 6 (Outcomes we will deliver), Table 1</li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (3 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>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.</p>	<p>The Board endorses the submission of cost adjustment claims relating to pumping costs (for raw water abstraction and transport, given the particular topography of the area we serve and nature of ground water sources) [Appendix SES027 – Cost Adjustment Claim: Pumping], and those related to the small scale of our Retail activities [Appendix SES030 – Cost Adjustment Claim: Retail Scale] and high regional labour costs [Appendix SES028 – Cost Adjustment Claim: Regional Wages].</p>	<p>We have seen evidence that SES Water has drafted 4 cost adjustment claims (CACs) – 3 for wholesale and 1 for retail:</p> <ul style="list-style-type: none"> <li>An adjustment for our higher Average Pumping Head and to adjust for the impact the inclusion of model variables such as booster pumping stations per length of mains has on our modelled cost (CAC1).</li> <li>An adjustment for our structurally higher regional wages (CAC2).</li> <li>An adjustment for the additional expenditure we incur from softening (CAC3).</li> <li>An adjustment for the additional costs resulting from the small scale of our retail operations (CAC4).</li> </ul> <p>Source: <i>Appendices SESW027 – SESW030</i></p> <p>Three of these CACs (CAC1, CAC3 and CAC4) have been externally assured by Mott MacDonald to ensure they meet Ofwat guidance at PR24 in Chapter 7 of the Business Plan. We note that from the Mott MacDonald Assurance report on CACs the econometric modelling within the claims was checked by CEPA.</p> <ul style="list-style-type: none"> <li><i>“Your claims for average pumping head and retail expenditure include econometric modelling which was beyond our scope of audit. We understand that your contractor has provided assurance of the quality of its modelling.”</i></li> </ul> <p>We have seen evidence of Board minutes and/or papers where the Board has reviewed and challenged management on the proposed cost adjustment claims.</p> <ul style="list-style-type: none"> <li><i>Following a separate softening deep dive with the Board, softening CAC was approved. Management reviewed in detail the base cost modelling analysis performed to date and the “bridge” via cost adjustment claims given the Ofwat base cost modelling reviewed to date. The Board approved the proposed Cost Adjustment claims as detailed in the Board paper, with the addition of regional labour claim - and the associated letter and detail to be provided to Ofwat. The Board were also notified that the CACs were being prepared with assistance from CEPA and would undergo an assurance process with Motts before submission. Source: SES Water Board meeting (May 2023)</i></li> </ul>
	<p>The Board has challenged management to balance the level of short-term ambition and the cost to deliver, with the longer-term aspirations for performance outlined in our LTDS and have considered the professional opinion of external advisors supporting this aspect of the business plan.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board has challenged management to balance short-term ambition with longer term performance in the LTDS:</p> <ul style="list-style-type: none"> <li><i>Board reviewed and challenged the draft LTDS Part 1 document to be issued - including ensuring it appropriately captured the Company’s purpose, key SESW water LTDS themes, interaction with employees and customers and overall priorities. Management discussed challenge points with the Board and addressed in meeting - especially with respect to aligning purpose and ambition in the initial LTDS document - which was updated and agreed with the Board. This allowed the Board to agree on ambition statements, areas of LTDS priority and therefore shape the final LTDS and BP. Board approved LTDS initial document for issuance. Source: SES Water Board meeting (September 2022)</i></li> </ul> <p>SES Water have sought the advice of many external advisors, including ‘Critical Friend’ support by Berkeley Research Group (BRG) on SES Water’s overall Business Plan approach, drafting of the Business Plan and presentational materials by Create51, regulatory review with specific development of cost assessments (including cost adjustment claims), outcomes and financial modelling by CEPA, energy pricing reviews from Cornwall Insight, tax support from EY, and development of the financial model by KPMG. Several independent consultants have also provided external assurance on elements of the Business Plan and LTDS for SES Water, including the Customer Scrutiny Panel (CSP) and Environmental Scrutiny Panel (ESP), Beryl Wall (independent customer research), Mott MacDonald (non-financial data tables and cost adjustment claims) and NERA (financeability and financial resilience).</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (4 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Business Plan expenditure forecasts are robust and efficient.</b></p>	<p>The business plan has been rigorously tested against relevant models (internal and external) for both base and enhancement costs.</p>	<p>We have seen evidence that the Business Plan has been tested for both proposed base and enhancement costs.</p> <p><i>“To test the efficiency of our plan, we have benchmarked our AMP8 forecasts against the allowances we expect to receive through Ofwat’s efficiency modelling. We have followed a robust approach to ensure that our forecast spending is in line with what would be expected from an efficient company:</i></p> <ul style="list-style-type: none"> <li><i>• We have first estimated the size of the efficiency challenge (if any) with reference to an outturn year, 2022/23: We have compared our outturn spending to industry benchmarks to test if there is any unexplained gap between our costs and other companies’ costs. As part of this step, we have corrected factors affecting our costs that cannot be fully captured in Ofwat’s industry benchmarking analysis (i.e., our CACs), as well as the symmetric adjustments we consider are relevant to us. We also account for cost pressures that are not fully captured in the industry benchmarking analysis, such as the recent substantial increase in energy costs.</i></li> <li><i>• We have then forecast future efficient costs based on Ofwat’s expected modelling approach: We have forecast our modelled costs through to AMP8, using expected changes in the models’ cost drivers. Where we are expecting certain trends in the prices of key inputs (e.g. labour, energy, chemicals) – positive or negative – we have captured these through real price effect adjustments (RPEs). Finally, we have accounted for the potential to deliver industry-wide improvements in productivity through the application of an ‘ongoing efficiency’ (frontier shift) challenge</i></li> <li><i>• Finally, we have calibrated our efficiency challenge by comparing our AMP8 plan against the Ofwat forecast of efficient costs: To make sure we are putting together an efficient plan, we have compared it against our current expectations of Ofwat’s forecast of our efficient costs. Source: PR24 BP, Chapter 7 (Explaining our costs), p13-14</i></li> <li><i>• “There has not been one single overarching review of our costs. Instead, individual interventions and their costs have been scrutinised by the appropriate consultants and experts within our business. For example, all leakage costs have been provided by specialist consultant Artesia consulting who have followed industry best practice approaches to leakage cost derivation to ensure that our costs are an accurate reflection of true costs of delivery. Similarly, Atkins have independently provided costs for our above ground asset interventions, particularly for our resilience enhancement schemes. Base asset renewal capital costs have been modelled using the common framework approach to asset maintenance modelling.” Source: email exchange shared by Daniel Woodworth (Head of Asset Strategy for SES Water) to PA Consulting via email on 14/09/2023</i></li> <li><i>• Further assurance of costs has been conducted by the following external support: 1. Gartner, for technology insight and direction of what technology is rated most suitable for our needs. This has been used for dozens of different technologies. 2. Valcon, a data consultancy for views on technology and costs thereof for data management solutions. 3. Tender processes for integration solutions – involves Salesforce Mulesoft, Boomi, Informatica responses. Source: Confirmed via email by Dan Lamb (Chief Information and Digital Officer for SES Water) on 22 09 2023</i></li> </ul> <p><i>“The proposed Smart Metering programme was built upon the costs proposed by Artesia as part of an industry-wide study. These helped SES to form an initial view on costs. As part of the second gate stage, SES commissioned Artesia to provide more granular detail on the costs/benefits of rolling out Smart Metering for SES, noting that for smaller water companies they are faced with fewer meters and often greater overheads. Source: discussion between PA Consulting and Tom Kelly, SES Water Operations Director on 19/09/2023</i></p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (5 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Business Plan expenditure forecasts are robust and efficient.</b></p>	<p>The Board has taken account of the modelled efficiency and have challenged management to ensure that cost allocation is appropriate, that management have reviewed the major contracts that underpin our operational delivery, that there is a balance between desirable efficiency and performance and that the unit costs have been suitably benchmarked.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board has challenged management around future operational delivery arrangements:</p> <ul style="list-style-type: none"> <li><i>The Board reviewed the proposed areas for "choices" and associated spend by management, challenging on the split between base and enhancements, the ambition on the proposed choices and overall efficiency considerations. The Board review and challenges ensured an alignment of key choices with base costs, enhancement claims and efficiency considerations. Source: SES Water Board meeting (November 2022)</i></li> <li><i>SES are proposing an 1% ongoing efficiency target (approved by Board July 2023) to its base capex and opex forecasts for AMP8. SES consider that this is a stretching and ambitious efficiency, but one it considers necessary to make sure that it continues to maintain its network effectively while keeping bills affordable for customers. Source: SES Water Board meeting (September 2023)</i></li> </ul> <p>PA Consulting has been informed by SES Water that it intends to review several large contracts before the beginning of AMP8, all of which are subject to Board review in line with SES Water's purchases procedures.</p> <ul style="list-style-type: none"> <li><i>"The contracts to be re-tendered include SES Water's energy contract worth approximately £[6]m, SES's infrastructure terms services contract worth c. £[10]m. SES is also due to review its chemical supply arrangement, plumbing side services and above ground asset maintenance contracts in the next few years. SES note that they strategically try to time its procurement exercises, so it is not competing with the larger companies, in order to gain an appropriate amount of interest from potential suppliers. SES's scale of delivery and unit costs are much higher than other companies."</i></li> </ul> <p>Source: Discussion between PA Consulting and Tom Kelly, SES Water Operations Director on 19/09/2023 &amp; Confirmed via email by Nicola Houlihan, Quality and Compliance Director for SES Water, on 27/09/2023.</p>
	<p>The Board considers that the costs for planned major capital scheme investments in PR24 are robust, having been developed from previous scheme extrapolation and quotes, informed judgement and detailed costs from our framework supplier (Atkins), and have been subject to optioneering through Copperleaf to ensure the efficient delivery of lowest whole life cost.</p>	<p>We have seen evidence that SES Water's proposed major projects have been optioneered through Copperleaf in the Appendix below:</p> <p><i>"We have optimised our plan using a valuation framework to enable us to identify the best value plan for our customers and the environment:</i></p> <ul style="list-style-type: none"> <li><b>Stage 3A:</b> <i>Identifying a 'long list' of potential projects and activities that may be needed to secure our ambitions in any (or all) of the scenarios, together with the relevant "optioneering" to identify the various possible ways in which each of those projects can be delivered and the various possible options for carrying out those activities.</i></li> <li><b>Stage 3B:</b> <i>Using the Copperleaf Value Framework to identify the various costs and benefits of each of the possible options.</i></li> <li><b>Stage 3C:</b> <i>Filtering this long list to determine the projects and activities that are relevant for each of the LTDS scenarios.</i></li> <li><b>Stage 3D:</b> <i>Using the Copperleaf Optimisation Tool to determine an optimised plan for each of the LTDS scenarios."</i></li> </ul> <p>Source: Appendix SES001 – LTDS Development Process, p9</p> <p>We have also seen Board confirmation on the process undertaken by SES Water:</p> <ul style="list-style-type: none"> <li><i>Board requested that management provide further detail on value framework, including measures of risk and success, implementation plans etc. Management reviewed value framework options, including the proposed criteria to be used and the potential use of Copperleaf systems solution to drive value framework decisions. Board review and challenge allowed management to implement a more systemised value framework. Board approved management's approach to the value framework and use of Copperleaf as systemised solution. Source: SES Water Board meeting (November 2022)</i></li> </ul> <p>We have seen evidence of external assurance carried out by Mott MacDonald on the inputs to and outputs from Copperleaf:</p> <ul style="list-style-type: none"> <li><i>"Mott MacDonald provided assurance of SES's PR24 investment planning approach using Copperleaf. The report found that SES's approach to options appraisal presented a lean methodology. This was demonstrated through the use of SES's value framework, which presents an overall monetised value for all options. SES's process and use of value measures through the planning process evidences a best value approach to development of the business plan."</i></li> </ul> <p>Source: SES PR24 Copperleaf Assurance report, Mott MacDonald, August 2023 – Summary of findings, recommendations and conclusions</p>



# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (6 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Business Plan expenditure forecasts are robust and efficient.</b></p>	<p>The Board recognises the uncertainty of future energy costs and chemical costs and supports expenditure forecasts that have therefore been developed considering extrapolated current base costs (chemicals), external insight (from Cornwall Insight for energy). These have been developed with CEPA and subject to internal expert review and challenge.</p>	<p>We have seen evidence presented to the Board that presents forecast trends of energy and chemical costs for AMP8.</p> <ul style="list-style-type: none"> <li>• <i>“As a result of increases in our forecast input costs in energy &amp; chemicals, certain CACs have increased in size.” Source: SES Water Board meeting (June 2023)</i></li> </ul>
	<p>Expenditure forecasts in the business plan incorporate our baseline and enhancement costs. The Company has ensured that these forecasts are prepared and reviewed in the same manner as the annual budget forecasts, with the CFO and his finance team reviewing all revenue and cost items, including detailed reviews of energy, chemicals, salaries and pension related balances. The Board also considered and affirmed the inclusion of a 1% ongoing efficiency into the Company’s TOTEX forecasts, ensuring that management continue to be challenged to deliver at an efficient level. With respect to financing costs, the Board acknowledges the probable inefficiency with respect to interest and indexation costs associated with the Company’s historical debt structure, given the significant RPI-linked bond that has been in place since 2001.</p>	<p>We refer you to the previous slide where SES Water are committing to a 1% ongoing efficiency target (approved by Board in July 2023) to its base capex and opex forecasts for AMP8. SES consider that this is a stretching and ambitious efficiency, but one it considers necessary to make sure that it continues to maintain its network effectively while keeping bills affordable for customers. <i>Source: SES Water Board meeting (September 2023)</i></p> <p>SES Water’s CFO has confirmed to PA Consulting that the Company have reviewed all of the opex and capex profiles in the PR24 model, and specifically looked at energy, chemicals, salaries and pension related balances, in addition to reviewing the CACs. This also involved discussion with Tom Kelly (Operations Director) on the level of energy costs in the overall submission. <i>Source: Confirmed via email by Paul Kerr, SES Water CFO to PA Consulting on 28/09/2023</i></p>



# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (7 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Business Plan expenditure forecasts are robust and efficient.</b></p>	<p>The Board has seen the benefits of innovation in delivering leakage reductions from an intelligent network and supports further application of smart technology to enable an efficient improvement in performance, as described in Chapter 10.</p>	<p>We have seen evidence of SES Water's intention to increase its level of innovation in their PR24 programme in Chapter 10 of the Business Plan:</p> <ul style="list-style-type: none"> <li><i>"In 2022, we became the first company to install smart technology throughout our supply network which is alerting us more quickly to problems so we can respond and fix them more quickly. To date, detection time of larger burst mains and leaks has reduced by 80%, from 15 hours to 3 hours, helping to reduce the length of time customers are without water. For small leaks we've reduced our detection time by around 20% so far and over AMP8 we aim to halve the average leak run time from 2020 levels. We'll do this by investing £1.1m to install more smart sensors so we can monitor our network even more closely and pinpoint the location of bursts and leaks more accurately. This will mean in the future, we can respond even quicker and reduce the risk of supply interruptions further still."</i></li> </ul> <p>Source: PR24 BP, Chapter 10 (Our Delivery Plan), p11</p>
	<p>One of the NEDs specifically reviewed the significant cost adjustment claim for softening, a unique Company-specific legal obligation with associated performance commitment, and on which the Company obtained specific external technical assurance for this cost item from Mott MacDonald [Appendix SES012 – External Assurance].</p>	<p>We have seen evidence of Board review on the specific cost adjustment claim for water softening.</p> <ul style="list-style-type: none"> <li><i>Following a separate softening deep dive with the Board, softening CAC was approved. Management reviewed in detail the base cost modelling analysis performed to date and the "bridge" via cost adjustment claims given the Ofwat base cost modelling reviewed to date. The Board approved the proposed Cost Adjustment claims as detailed in the Board paper, with the addition of regional labour claim - and the associated letter and detail to be provided to Ofwat. The Board were also notified that the CACs were being prepared with assistance from CEPA and would undergo an assurance process with Motts before submission. Source: SES Water Board meeting (May 2023)</i></li> </ul> <p>We have reviewed the findings from Mott MacDonald's external assurance report on the CACs developed by SES Water. The report specifically comments that SES Water are "unique among English and Welsh water companies in having a statutory obligation to soften water to customers in your Sutton water supply area, under the Sutton District Waterworks Act 1903". The report states that SES Water has demonstrated each information requirement across all 3 CACs and that "We [Mott MacDonald] reviewed your claims during drafting in September 2023, to confirm that you have addressed Ofwat's guidance set out in its PR24 final methodology." Source: SES 2023 PR24 cost adjustment claim assurance letter, Mott MacDonald, September 2023</p>
	<p>Where we have seen the evidence that regional and operational variations specifically impact our Company costs and are not accounted for in the relevant base cost Ofwat models that determine efficiency, such as the high costs of borehole raw water pumping, cost to operate our retail function (scale of operation) and impact of regional wages, we have supported additional cost adjustment claims. External assurance from Mott Macdonald has also been obtained for the additional pumping cost claim and retail scale [Appendix SES012].</p>	<p>We have seen evidence of the 4 cost adjustment claims (CACs) submitted by SES Water where the Company considers that that regional and operational variations impact costs that are not accounted for in the relevant base cost Ofwat models. As stated in the row above, we have reviewed the findings from Mott MacDonald's external assurance report on the CACs developed by SES Water. No material issues were found.</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (8 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>All projects proposed as specific enhancement expenditure were presented to the Board for approval on 10 November 2022. The Board confirmed with management that the cost of each scheme is for the delivery of new or improved outcomes only.</p>	<p>We have seen evidence of the Board being provided the opportunity to challenge management on the proposed enhancement expenditure claims.</p> <ul style="list-style-type: none"> <li><i>Board papers show that all projects proposed as enhancement expenditure were presented at the Board meeting. The Board reviewed the proposed areas for "choices" and associated spend by management, challenging on the split between base and enhancements, the ambition on the proposed choices and overall efficiency considerations. The Board review and challenges ensured an alignment of key choices with base costs, enhancement claims and efficiency considerations. Source: SES Water Board meeting (November 2022)</i></li> </ul>
	<p>Where the programmes build on existing outputs, such as our current programmes to reduce leakage, upgrade meters and reduce customer exposure to lead, the Board have sought assurance from management that the PR24 enhancement claims are for a step-change in delivery and not to secure the completion of previously funded projects..</p>	<p>We have seen evidence from SES Water that they have confirmed to the Board the enhancement activities will deliver a step change in performance:</p> <ul style="list-style-type: none"> <li><i>"We have split enhancement cases out into specific and unique clusters that directly target a specific group of performance areas. These enhancement cases set out in detail a case for enhancement including why they are not base activity. If necessary previous base investment in these assets or areas of the business will be set out as a means to demonstrate how this enhancement funding is new and genuine enhancement. These enhancement cases have/will be internally scrutinised with a view to identifying any possibility of double counting between base and enhancement in either this or previous plans. The board will review and sign off on all enhancement cases." Source: email exchange shared by Daniel Woodworth (Head of Asset Strategy for SES Water) to PA Consulting via email on 14/09/2023</i></li> </ul>
	<p>In this regard the Board challenged on the work associated with smart metering, with a separate non-executive director review of this enhancement claim, ensuring that the proposed claim was not influenced by any potential non-compliance in our current metering programme.</p>	<p>Having reviewed the materiality of the Smart Water Customer Experience enhancement claim, PA Consulting advised SES Water that a member of the Board peer review the document. This review was subsequently carried out with a member of the Board (Rebecca Wiles) providing detailed feedback on the enhancement case which was incorporated into SES Water's final submission.</p> <p><i>Source: Discussion between PA Consulting and Dan Lamb (Chief Information and Digital Officer for SES Water) on 06/09/2023</i></p> <p>The Board has confirmed to PA Consulting that they have challenged the work on smart metering with specific reference to the proposed enhancement case:</p> <ul style="list-style-type: none"> <li><i>"As stated within paragraphs 114 and 115 in your Smart Enhancement Case, and in your accompanying email, I can see that you have completed a thorough bottom up and top down (third party assured) cost estimate exercise based solely on what would be required to deliver the AMI smart metering solution, i.e. independent of any previous metering, or other, activity."</i></li> </ul> <p><i>Source: email exchange between Rebecca Wiles (Board member) and Dan Lamb (Chief Information and Digital Officer for SES Water), shared by Nicola Houlahan (Quality and Compliance Director for SES Water) via email on 28/09/2023</i></p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (9 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>The Board discussed the specific choices that influence the delivery of the Company's longer-term ambitions, and hence impact key enhancement proposals, at the PR24 Board meeting on 7 February 2023. Those choices centred on the scope and pace of rollout of smart metering, leakage measures, C-MeX improvement measures and lead pipe removal, together with the proposed Water Industry National Environment Programme (WINEP) work to be performed.</p>	<p>We have seen evidence of the Board influencing the company's long-term ambitions around enhancement activities:</p> <ul style="list-style-type: none"> <li><i>The Board reviewed in detail the Smart Metering alternative smart metering options that were presented, challenging on the benefits, time, costs and initial customer feedback. The Board considered the benefits and disadvantages of short-term Vs long-term implementation periods. Opting to bring forward the programme the Board considered that the shorter rollout period of 7 years was preferred to achieve the positive impacts on PCC and Leakage sooner, as well as impacts on other areas of the business.</i></li> <li><i>On Leakage, after review of material in the Board papers, and challenge around pace of delivery and consideration of customer feedback to date, the Board agreed that "Fast Start to 50%" option is preferred. Board subsequently approved implementation of fast-track leakage programme.</i></li> <li><i>On Lead, based on the materials in the Board papers, the Board agreed to continue BAU lead replacement work and target enhancement spend on schools and most vulnerable customers. Board subsequently approved implementation in PR24 of the lead replacement programme.</i></li> </ul> <p>Source: SES Water Board meeting (February 2023)</p> <p>PA Consulting were informed by SES Water that it had not sought internal or external assurance on its enhancement claims and that the Board is comfortable with this position.</p>
	<p>The Board considered and confirmed that material change to the Company's water resources and network is not required given the Company's satisfactory water resources position (evidenced in the Company's Water Resource Management Plan (WRMP)) and good operating track record.</p>	<p>We have seen evidence of SES Water's current water resources position in Chapter 3 of the Business Plan:</p> <ul style="list-style-type: none"> <li><i>SES Water's current performance shows that the company is performing better than the industry average on 5 of the key performance metrics and below average on 2 (PCC and C-MeX).</i></li> <li><i>"We operate a single water resource zone, with an increased degree of interconnectivity across our operating region which leads to greater levels of water resource and supply resilience for our entire customer base." Source: PR24 BP, Chapter 3 (About us and Our Track Record), p3</i></li> </ul> <p>SES Water has confirmed to PA Consulting that the Board has confirmed this position:</p> <ul style="list-style-type: none"> <li><i>"The Board has confirmed this in the meeting in February 2023 where conversations centred around determining choices for customers, where the Board considered that SES is doing currently is more efficient as it is better targeted e.g. on mains replacement."</i></li> </ul> <p>Source: Confirmed via email by Nicola Houlahan, Quality and Compliance Director for SES Water, to PA Consulting on 27/09/2023</p>
	<p>The CSP discussed and challenged management on the options presented to customers ensuring that the company had reflected customers' views on preferred options within the Plan.</p>	<p>The CSP report provides assurance on options appraisal and a view on whether the options proposed are the 'best' for customers. The CSP's findings also evidence challenge to the SES Board throughout the process:</p> <ul style="list-style-type: none"> <li><i>"We are happy to provide assurance that a proper appraisal of options has taken place. Whether the options proposed within the business plan are in fact the best ones for customers is subjective, involving potential trade-offs between short-term affordability and the need to act in a timely manner to address climate change. In our view, the draft business plan does a good job of balancing the options, taking customer preferences into account while also maintaining focus on the long-term interests of customers, communities and the environment. We will be better able to comment on this following a special session of the Environmental Scrutiny Panel scheduled for 14 September.</i></li> <li><i>Throughout, we have enjoyed full transparency and openness to challenge from the SES Water executive team, their agency partners and, critically, the company's Board of Directors."</i></li> </ul> <p>Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (10 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>The Company engaged expert external resources to assist with the evaluation of options within the Plan, and the Board, following discussion with management, approved the use of the Copperleaf model for optioneering evaluation and selection of most appropriate enhancement schemes.</p>	<p>As stated on p47, the value framework was approved at a Board meeting following challenge on the proposed framework. Mott MacDonald have provided assurance on SES's Investment planning process using Copperleaf. The report found that the investment planning process proposed was adequate and presented a best value approach to the development of its business plan.</p> <ul style="list-style-type: none"> <li>• <i>Source(s): SES Water Board meeting (November 2022); SES PR24 Copperleaf Assurance report, Mott MacDonald, August 2023 – Summary of findings, recommendations and conclusion</i></li> </ul>
	<p>The final choice of options has considered our regulatory obligations, the balance of our proposed performance commitments at PR24 and longer-term benefit to the delivery of our LTDS and the resultant cost to customers, both now and in the future, thereby minimising whole life costing. Further detail on such options with respect to Enhancement Cases is contained in Appendices SES006-SES010.</p>	<p>Board opinion; no supporting evidence required.</p>
	<p>The Board are aware of the option provided by the Environment Agency (EA) in July 2023 to consider a phasing our PR24 WINEP into future price reviews. The Board supports management's view that the WINEP proposals are deliverable, financeable and will not result in any adverse impacts on our customers, and so no phasing was proposed. This decision considered the nature of our activities proposed, the overall cost of the programme and the customer research that had supported our environmental plans.</p>	<p>Board opinion; no supporting evidence required.</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (11 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>SES Water has a good past record of delivery and has exhibited high levels of innovation in AMP7 to drive more effective outcomes, for example with its smart networks and leakage reduction measures.</p>	<p>We have seen evidence of SES Water's track record demonstrating innovative behaviour during AMP7.</p> <p>SES Water has informed PA Consulting that it is viewed as a market leader in terms of innovation across the water industry, having won several awards for innovative practice including Asset Management Initiative of the Year at the 2023 Water Industry Awards for its DMA Asset Health Project, and the Innovation category for its fully smart network at Utility Week awards December 2022. SES Water is the only 'Water only' company that provides a programme lead at UKWIR, where it oversees the Leakage programme. <i>Source: Information provided by Jeremy Heath, SES Water Innovation Manager, to PA Consulting on 07/09/2023</i></p>
	<p>The Board recognises that a step-change is needed in the delivery of activities for PR24 compared to PR19, both at SES Water and across the industry as a whole. There is an increased level of risk in securing full delivery of the plan due to potential shortfalls in the ability of the supply chain to deliver components such as smart meters at the rate required across the industry, or to ensure specialist resource remains available to the water sector in a competitive utility market.</p>	<p>SES Water has confirmed to PA Consulting that the Board have received verbal updates in multiple Board meetings as well as a summarised commentary within the executive summary of the PR24 Business Plan. <i>Source: Confirmed via email by Tom Kelly, Wholesale Director (SES Water), to PA Consulting on 27/09/2023</i></p>
	<p>To mitigate against the risk, the Company is reviewing its supplier and framework structures and planning ahead to fix the programme of works as early as possible with clear project management proposals; and will look to engage with contractors who align with our Company purpose, values and culture and appreciate the scale at which they will be working.</p>	<p>SES Water has confirmed to PA Consulting that the deliverability of certain projects that would not be constrained by IT dependencies.</p> <ul style="list-style-type: none"> <li>• "We have fully considered IT requirements of each of our ambitions, outcomes and interventions. IT provision was part of our project longlist and Copperleaf optimisation planning using value frameworks." <i>Source: email exchange shared by Daniel Woodworth (Head of Asset Strategy for SES Water) to PA Consulting via email on 14/09/2023</i></li> </ul> <p>SES Water has also provided several examples of IT projects that were considered key enablers for AMP7 deliverability, including:</p> <ul style="list-style-type: none"> <li>• Aptumo Billing CRM for customer billing and experience management</li> <li>• Oneserve Job Management</li> <li>• Data platform for business reporting and analysis</li> <li>• MyAccount for customer billing self-service</li> <li>• Aquasuite, burst find and alike for burst and leakage management and water balance reporting</li> </ul> <p><i>Source: Discussion between PA Consulting and Dan Lamb (Chief Information and Digital Officer for SES Water) on 06/09/2023</i></p>
	<p>The Board have challenged management to focus on deliverability throughout the process of developing the plan and have received reassurance that the foundations are in place to deliver key schemes within the Plan, such as smart metering and softening upgrades at Kenley Treatment Works.</p>	<p>SES Water has confirmed to PA Consulting that the Board have received verbal updates in multiple Board meetings as well as a summarised commentary within the executive summary of the PR24 Business Plan. <i>Source: Confirmed via email by Tom Kelly, Wholesale Director (SES Water), to PA Consulting on 27/09/2023</i></p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (12 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board is satisfied that the business plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments)</b></p>	<p>The Board has considered the price control deliverables within the enhancement cases being proposed (namely PCDs associated with lead replacement, smart metering and resilience related work), and are satisfied that these are appropriately included on the basis of their materiality (relative to overall business plan TOTEX) and are not otherwise being covered by performance commitments or other regulatory legal instruments.</p>	<p>SES Water are proposing 3 PCDs as part of its PR24 Business Plan. These relate to 1. Lead replacement in schools, 2. Metering to reduce PCC and 3. Resilience work to improve resilience of production and supply operations.</p> <ul style="list-style-type: none"> <li>• SES Water grouped individual enhancement lines into Ofwat’s 19 PCD groupings at PR24, e.g. for WINEP there were multiple groupings such as biodiversity and demand-side improvements.</li> <li>• SES then assessed whether any of the groupings meet a materiality threshold - if this was the case it was then determined if there is existing adequate customer protection in place.</li> <li>• In the absence of adequate customer protection, a PCD was proposed. These proposed PCDs are being presented to Ofwat as a work in progress for guidance on the direction of travel that SES need to go. The PCDs were drafted internally with support from CEPA.</li> <li>• The PCDs were subsequently reviewed by the Executive team and approved by the Board at a meeting on 26/09/2023. SES Water has confirmed to PA Consulting that the proposed PCDs were internally assured and that the Board is comfortable with this position.</li> </ul>
<p><b>The Board is satisfied that the expenditure proposals are affordable by customers and do not raise bills higher than necessary.</b></p>	<p>The Board is satisfied that the expenditure proposals reflect an efficient delivery of base requirements and limit the enhancement spend to that needed to deliver necessary or customer supported improvements at PR24.</p> <p>In reaching this conclusion, the Board has considered the outputs of the Company’s financial modelling and efficiency benchmarking, the options for bill profiles across the AMP and the use of regulatory levers (such as Pay As You Go (PAYG) levers) to manage bills for customers. The Board also considered the balance between expenditure levels to deliver our plan, meeting our proposed commitments to customers and associated long-term ambitions, and affordability, taking into account the financeability metrics that the Company must achieve under its bond covenants.</p> <p>Therefore, the bill profile provided in the plan was considered affordable for customers, aligned to the expenditure levels required to deliver our plan and was not higher than necessary.</p>	<p>We have seen evidence from the CSP that the proposals being presented to Board are affordable:</p> <ul style="list-style-type: none"> <li>• <i>“We are happy to provide assurance that the proposals being presented to the Board are affordable and avoid raising bills higher than necessary. There is a cost of living crisis: energy/fuel prices, food prices, rental and mortgage costs and public transport costs are very challenging (and have been for some time), and the economic future is very uncertain. This created a difficult time in which to conduct Affordability and Acceptability research. Customers were consulted on a range of bill increase options, prioritising improvements/investments alongside the time in which they should be implemented. Expenditure proposals therefore reflect the preferences of customers, as understood qualitatively. The A&amp;A research will confirm or challenge these findings. However, we are confident in the integrity of the process that the company has followed (i.e. the way in which they are implementing Ofwat’s methodology).”</i></li> </ul> <p>Source: Final Assurance Report (v1.6) on SES Water’s Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023</p> <p>We have seen evidence of Board minutes and/or papers where the Board has considered the outputs from SES Water’s financial modelling with respect to long-term bill impacts and the ability of customers to manage their bills. This has also considered SES Water’s ongoing financeability and minimum requirements as defined by its bond covenants:</p> <ul style="list-style-type: none"> <li>• <i>SES presented different affordability proposals to its board, and following discussion and challenge opted for a bill profile that brings forward bill increases for future customers into the final year of AMP7 (20% increase) and modelling changed by adjusting PAYG levers to smooth bill over AMP to ensure a gradual increase for its customers. This was approved by the Board during the Board meeting held on 15/09/2023</i></li> </ul> <p>Source: SES Water Board meeting (September 2023)</p> <p>See evidence presented in row above</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (13 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board is satisfied that the Business Plan expenditure proposals reflect customer views, and where appropriate are supported by customers</b></p>	<p>Customers' key priorities are to receive a high-quality water from sustainable sources; to have a resilient water supply from source to tap; to receive help in reducing their water footprint and be charged a fair price; and for SES Water to improve the environment and have a positive impact in the local area. The results of the research that has specifically sought customer views on the acceptability of our proposed business plan, demonstrates that 66% household customers and 79% non-household felt our plan was acceptable.</p>	<p>We have seen evidence of customer priorities as stated in Chapter 5 of the Business Plan, and through both the CSP and Impact's report findings:</p> <ul style="list-style-type: none"> <li>• <i>"We have organised our business plan and the outcomes of our customer research into four customer priorities: provide you with high-quality water from sustainable sources; deliver a resilient water supply from source to tap; help you reduce your water footprint and charge a fair price; and improve the environment and have a positive impact on our local area."</i> Source: PR24 BP, Chapter 5 (Our customers and their priorities), p14</li> <li>• <i>"A number of pieces of bespoke research (not just Acceptability and Affordability Testing) involved a quantitative and a qualitative phase, which has enabled depth as well as breadth of understanding [of customer priorities]. We are happy to provide assurance that the company has complied with this principle [A robust, balanced and proportionate evidence base, developed using a range of techniques and data sources should support companies having a genuine understanding of their customers' priorities, needs, requirements, and behaviours.]"</i></li> <li>• <i>We are confident that the expenditure proposals presented to the Board later this month will reflect customer views and enjoy broad customer support, given the care taken by SES Water to ensure that a wide range of insight is obtained from customers and stakeholders and appropriately triangulated. The contingent value analysis of a representative sample will provide more robust evidence."</i> Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</li> <li>• <i>"Looking more into the proposed plan itself, levels of acceptability were high, with 66% of HHs finding the proposed plan either 'acceptable' or 'completely acceptable'"</i> Source: Impact: affordability and acceptability report prepared for SES Water, September 2023</li> </ul>
	<p>Customers and stakeholders have had the opportunity to influence our LTDS, the priorities for the first five years of that strategy, and the level of ambition the Company should be aiming for within the confines of defined and acceptable bill increases through the multi-faceted and extensive research and engagement plan, as outlined in Chapter 5.</p>	<p>We have seen evidence of customer and stakeholder influence on the LTDS and Business Plan as stated in the CSP findings and Chapter 3 of the LTDS:</p> <ul style="list-style-type: none"> <li>• <i>"We believe that the LTDS is indeed being informed by this research."</i> Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</li> <li>• <i>"Customers have told us lead replacement is an area that they expect us to invest in over the next 25 years and have shown a preference for us to take a risk-based approach by targeting schools, colleges and nurseries first, as young people are most at risk from lead exposure. This will be in addition to the continuance of the statutory+ programme."</i> Source: LTDS, Chapter 3 (Our ambition), p27</li> </ul> <p>Mott MacDonald provided assurance on SES's Investment planning process using Copperleaf. Their findings indicated that SES Water had adequately incorporated customer consultation feedback.</p> <ul style="list-style-type: none"> <li>• <i>The report found that the investment planning process incorporated customer consultation feedback. This was demonstrated to have been included through the WRMP consultation process and customer engagement during the business plan development (June '23). Mott MacDonald found that it was clear that a rational decision making had taken place in SES's planning process, in the event of customer views conflicting proposed options, SES prioritised it's statutory obligations to maintain service to all customers. Source: SES PR24 Copperleaf Assurance report, Mott MacDonald, August 2023 – Summary of findings, recommendations and conclusion</i></li> </ul>



# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (14 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board is satisfied that the Business Plan expenditure proposals reflect customer views, and where appropriate are supported by customers</b></p>	<p>A nominated NED directly oversaw the development of the customer engagement plan and the Board approved that plan and reviewed the outcomes of the numerous elements of research through the PR24 Board meetings [Appendix SES053]. The Board can confirm that the expenditure proposals for the final proposed plan reflect customer views on what should be delivered in AMP8, considering the cost of those activities.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board approved the customer engagement plan:</p> <ul style="list-style-type: none"> <li><i>The Board reviewed the Customer Engagement Plan and challenged management to ensure effective alignment with Ofwat process, engagement of CSP as part of overall customer assurance work and to provided the Board with further details on Bespoke 1 &amp; 2 research. Management reviewed the items with the Board in the session as detailed in the deck - and reviewed the approach to Bespoke 1 and 2 work. Board approved customer engagement plan. Source: SES Water Board meeting (September 2022)</i></li> </ul>
	<p>Of particular note, the outputs of the Bespoke 2 customer research programme that demonstrated the levels of customer support for proposed areas and degrees of enhancement were shared with the Board, and the Board is satisfied that the final schemes adopted appropriately reflect those customer views.</p>	<p>We have seen evidence that the outputs from Bespoke 2 have been incorporated into the LTDS and approved by the Board:</p> <ul style="list-style-type: none"> <li><i>"In our Bespoke 2 research, 76% of customers rated it important or very important to invest in lead pipe removal and 70% of customers chose an option that included us starting our lead replacement programme with a risk-based approach." Source: LTDS, Chapter 4 (Our LTDS core adaptive pathway), p44</i></li> <li><i>Leakage - after review of material in the deck, and challenge around pace of delivery and consideration of customer feedback to date, the Board agreed that "Fast Start to 50%" option is preferred. Lead - based on the materials in the deck and the discussion above, the Board agreed to continue BAU lead replacement work and target enhancement spend on schools and most vulnerable customers. Source: SES Water Board meeting (September 2022)</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## Costs and outcomes (15 of 15)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>The expenditure proposals reflect customer views, and where appropriate are supported by customers</p>	<p>In the case of smart metering, whilst Bespoke 2 had a low level of customer support for a faster rollout of smart meters, the Board accepted the Company's plans to deliver this programme, given the high level of customer support to reduce leakage and water demand, with consequent benefit to the environment, for which smart meters are seen as essential.</p>	<p>We have reviewed the findings from SES Water's Bespoke 2 research which identified support for areas where customers had tangible choices to make. A summary of the research below details evidence of extensive customer engagement and evidence of support across many performance commitments. These findings have been reflected in the Business Plan.</p> <p>Bespoke 2 research findings detail customer support across priority services and investment areas. A majority of customers selected leakage reduction as the most important area for investment, support for investment in Environmental improvements is deemed the 2<sup>nd</sup> most important followed by Lead reduction, Carbon Net Zero and then Smart Metering where a clear majority selected this as the least important area.</p> <ul style="list-style-type: none"> <li>• <b>Leakage:</b> WRMP plans for the statutory 50% leakage reduction by 2050 – our insight shows that customer expect us to go further/faster, with our proposed long-term ambition is to achieve this by 2040 (supported by 40%) and target a 60% reduction by 2050 (supported by 35%). Section 6 (The Outcomes We Will Deliver), states that SES will halve its leakage by 2041 and by 2050 achieve a reduction of greater than 62%.</li> <li>• <b>Environmental enhancement :</b> Insight shows customer support for us to go beyond statutory requirements implemented by WINEP to enhance the environment and showed a higher level of awareness of the issues facing chalk streams than previously seen.</li> <li>• <b>Lead reduction:</b> We already go beyond statutory requirements for lead and the insight shows support for additional investment but the customers views on how far we should go and at what pace are mixed. Our proposal is to take the risk-based approach as supported by 70% of customers, this area will require further consideration as 35% customers want us to go further.</li> <li>• <b>Carbon Net Zero:</b> Ofwat's final methodology focuses on the Government's 2050 total carbon net zero target. Our proposal is to take an incremental approach, that is market driven, and will achieve the Government target of 2050 to be a more cost-efficient approach as it will be achieved through base expenditure and at no additional cost to customers. We consider this reflects customer preferences as we a prioritising our investment in other areas – namely leakage – and taking a steady approach to carbon reductions.</li> <li>• <b>Smart Metering:</b> Our insight shows there is mixed support for smart meters and extra investment to pay for them is not supported by customers</li> </ul> <p><i>Source: CSP meeting slides shared by Dan Le Roux (Head of Customer Insights &amp; Analytics) to PA Consulting via email on 06 09 2023 ("CSP – PR24 research programme", 29 June 2023)</i></p>

# 08

## **Assessment of Existence of Evidence Cited in relation to Risk and Return Board Assurance Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## Risk and Return (1 of 4)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Company's business plan is financeable on the basis of the actual and notional capital structure.</b></p> <p><b>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 and the consideration of the financial ratios are summarised below.</b></p> <p><b>In addition, the Board confirms that the actual Company is financially resilient over the 2025-2030 period and beyond under its business plan.</b></p>	<p>The Board has ensured the Company's business plan is financeable on an actual and notional basis after incorporating various components of our PR24 business plan as specified by Ofwat, including TOTEX, official forecasts of inflation, the early view of allowed return and retail margin, PAYG levels and RCV run-off rates.</p> <p>Financeability has been assessed on an actual basis, before considering any reconciling adjustments that may apply in respect of past performance at PR19.</p>	<p>Board approved financial assumptions embedded in plan, including equity and debt requirements.</p> <p><i>Source: SES Board meeting held on 15/09/2023</i></p> <p>NERA's assurance letter confirms that SES Water's financial modelling takes into account the relevant components of the business plan.</p> <ul style="list-style-type: none"> <li>• <i>"As part of our model audit, we thus assessed i) whether the calculation of the allowed revenue in the SESW actual financial model is consistent with that in Ofwat's PR24 notional financial model; ii) whether the regulatory parameters contained in SESW's model are consistent with Ofwat's PR24 Final Methodology; and iii) whether the calculations in the actual financial model are conceptually and arithmetically correct.</i></li> <li>• <i>Throughout our review process, we have compiled a log of modelling issues which we have subsequently shared with the SESW financial modelling team and CEPA. This log provides a comprehensive list of our findings and is included alongside this letter for reference. Following discussion of these issues with SESW and CEPA, we do not consider that there are any outstanding model issues that affect the model's accuracy with respect to the actual financeability of the SESW PR24 business plan.</i></li> <li>• <i>Regarding the consistency with Ofwat's regulatory parameters, we note that in its financial modelling for PR24, SESW chose an RCV run-off rate of 7 per cent, very marginally lower than the rate that allowed at PR19. Ofwat's guidance states that: "we would not expect companies to propose RCV run-off rates that are higher than those allowed at PR19 or that are above the guidance set out in table 7.2 [of 4.5 per cent]". Although unhelpfully ambiguous, Ofwat's guidance appears to allow companies to submit RCV run-off rates at the same level as PR19 even where this is higher than 4.5 per cent. We understand from that SESW will acknowledge that its run-off rate is consistent with that allowed at PR19 although higher than 4.5 per cent in its submission to Ofwat, explaining that it would otherwise encounter financeability issues."</i></li> </ul> <p><i>Source: NERA on Financeability and Financial Resilience of PR24 Business Plan provided to PA Consulting by SES</i></p> <p>We have seen evidence of SES Water's financeability assessed on an actual basis before reconciliations to adjust for PR19 performance in Chapter 8 of the Business Plan:</p> <ul style="list-style-type: none"> <li>• <i>"As noted in the Final Methodology, we have assessed financeability on an actual basis before taking account of any reconciling adjustments to revenue for past performance in PR19." Source: BP, Chapter 8 (Financing our plan), Section E, p6</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## Risk and Return (2 of 4)



SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Company's business plan is financeable on the basis of the actual and notional capital structure.</b></p> <p><b>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 and the consideration of the financial ratios are summarised below.</b></p> <p><b>In addition, the Board confirms that the actual Company is financially resilient over the 2025-2030 period and beyond under its business plan.</b></p>	<p>The Board's assessment of financeability has considered both the financial metrics that Ofwat note in their Final Methodology and compliance with the financial covenants associated with our index-linked bond.</p>	<p>We have seen evidence of the Board's financeability assessment considering financial metrics as stated in Ofwat's final Methodology, as well as compliance with SES Water's financial covenants in Chapter 8 of the Business Plan:</p> <ul style="list-style-type: none"> <li><i>"The Board's assessment of financeability is performed through the consideration of key financial metrics. While those financial metrics that Ofwat have noted in the Final Methodology have been considered in table 2 below, for our Company the main financeability metrics are those that ensure our compliance with the financial covenants associated with our index-linked bond (in particular a bond gearing limit of 75% at the start of each AMP and 80% during the AMP itself). These covenants generally impose tighter financial constraints than the metrics used by the independent credit rating agencies." Source: BP, Chapter 8 (Financing our plan), Section E, p6</i></li> </ul> <p>SES confirmed that a senior Board member and the CFO have reviewed the financeability tests in light of Ofwat's note in their final methodology and have ensured that the modelling takes accounts of these factors as well. The Board have therefore derived their overall assurance from this work together with the NERA assurance report that covers these items.</p> <p><i>Source: Email from Paul Kerr, Chief Financial Officer (SES Water) to PA Consulting on 29/09/2023</i></p>
	<p>The Board supports the Company-specific adjustment to Ofwat's early view of the weighted cost of capital to allow for the unavoidable additional costs incurred in raising historic debt financing.</p>	<p>Board opinion is supported by the research commissioned by SES carried out by KPMG, which suggests SES would be due a much larger uplift than what it is suggesting. This research is supplemented by SES Water's customer research into SCP (discussed further in Section 9 – Customer Engagement)</p> <ul style="list-style-type: none"> <li><i>"The 30bps uplift (proposed by Ofwat) in respect of embedded debt is significantly lower than that which we have estimated would be necessary to cover our estimated cost of embedded debt for the period and an uplift of closer to 150bps would in fact be necessary.</i></li> <li><i>In relation to new debt, we set out the regulatory precedent from Ofgem which provides for an uplift of 26bps in the case of smaller electricity distribution network operators which are significantly greater in size than we are.</i></li> <li><i>Finally, we believe that 10bps should be added to our cost of debt in terms of cost of carry."</i></li> </ul> <p><i>Source: KMPG SCP Appendix provided to PA Consulting on 27/09/2023</i></p>
	<p>In considering financeability, the Board has ensured the modelling also takes full account of committed and future equity injections, short-term refinancing and the refinancing of our index-linked bond.</p>	<p>SES confirmed that a senior Board member and the CFO have reviewed and ensured that the modelling takes full account of committed and future equity injections, short-term refinancing and the refinancing of index-linked bonds. As above, the Board have therefore derived their overall assurance from this work together with the NERA assurance report that covers these items.</p> <p><i>Source: Email from Paul Kerr, Chief Financial Officer (SES Water) to PA Consulting on 29/09/2023</i></p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Risk and Return (3 of 4)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>The Board confirms that the Company's business plan is financeable on the basis of the actual and notional capital structure.</p> <p>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 and the consideration of the financial ratios are summarised below.</p> <p>In addition, the Board confirms that the actual Company is financially resilient over the 2025-2030 period and beyond under its business plan.</p>	<p>Our forecast financial metrics indicate the Company achieving, on average across AMP8, a credit rating of Baa1 under Moody's assessment criteria, albeit marginally, with at a minimum a solid credit rating of Baa2.</p>	<p>We have seen evidence of SES Water's forecast credit rating assessment on an <i>actual</i> basis, assessed on an actual basis before reconciliations to adjust for PR19 performance in Chapter 8 of the Business Plan:</p> <ul style="list-style-type: none"> <li>“On an actual basis, we expect that, through the Company's implementation of its business plan on average across AMP 8, we achieve a credit rating of Baa1 under Moody's assessment criteria, albeit marginally, with at a minimum a solid credit rating of Baa2. Achieving and maintaining a Baa1 credit rating will require the Company to deliver through AMP 8 a solid operational and regulatory performance, TOTEX spend in line with final allowances from Ofwat, continued equity injections as detailed in our financing plan for 2023 to 2026, and with the absence any severe adverse macro-economic factors. Further increases in equity would aid to strengthen the case for a Baa1 rating, but with our continued indexation pressures on the RPI linked debt, and the actual cost of raising debt in AMP 8, we estimate that a further £15m to £20m of equity would be required to solidly achieve a Baa1 credit rating.” Source: BP, Chapter 8 (Financing our plan), Section E, p7</li> </ul> <p>We have also seen evidence of SES Water's forecast performance on a <i>notional</i> basis:</p> <p>“Through compliance on these metrics – we are also financeable on a notional basis, whose structure is different in two key areas:</p> <ul style="list-style-type: none"> <li>Assumed gearing – of less than 55.0% throughout the AMP.</li> <li>Composition of external debt and the interest rate assumed to be payable on that debt - that Ofwat's notional structure adopts interest rates materially lower than the interest rate actually payable on our historic borrowings.</li> </ul> <p>Based upon the notional model where gearing ranges from 51.90% to 52.89%, with an average gearing of 52.45% across the AMP, this results in favourable interest and credit metrics and proves the Company to be financeable on a notional basis.” Source: BP, Chapter 8 (Financing our plan_draft), Section E, p7</p>
	<p>However, achieving a credit rating of Baa1 is caveated with the need for solid operational and regulatory performance, TOTEX spend in line with final allowances from Ofwat, continued equity injections as detailed in our financing plan for 2023 to 2026, and absent any adverse macro-economic factors.</p>	<p>This is verified by the findings from NERA's assurance report:</p> <ul style="list-style-type: none"> <li>“The achievement of a Baa1 rating depends on SESW totex spend in line with allowances and a stable macro-environment, with poor cost or ODI performance or adverse changes in interest rates or inflation leading to a Baa2 rating and more extreme scenarios showing further downgrades. In such scenarios, we would expect SESW to draw on liquidity facilities, cash-lock up provisions and ultimately further shareholder equity, to restore financial viability. The achievement of a Baa1 rating is also predicated on additional equity support over the remainder of AMP7 and AMP8 of £57m.”</li> </ul> <p>Source: NERA assurance report provided to SES water on Financeability and Financial Resilience of PR24 Business Plan, September 2023</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Risk and Return (4 of 4)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>The Board confirms that the Company's business plan is financeable on the basis of the actual and notional capital structure.</b></p> <p><b>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 and the consideration of the financial ratios are summarised below.</b></p> <p><b>In addition, the Board confirms that the actual Company is financially resilient over the 2025-2030 period and beyond under its business plan.</b></p>	<p>The Board are reassured that the Company's specific funding arrangements have been appropriately considered in determining financeability through our financial model that incorporates the unique ratios from the historic bond, checked for alignment with Ofwat's model where appropriate.</p>	<p>In addition to the evidence provided on slide 60, that company specific funding arrangements and historic financial structure have been appropriately considered in determining its financeability.</p> <p><i>Source: Email from Paul Kerr, Chief Financial Officer (SES Water) to PA Consulting on 29/09/2023</i></p>
	<p>As a Board we are appraised of financial matters through the Financing Committee and specific engagement on this topic for PR24 has been delivered throughout the year to the Board.</p>	<p>SES Water confirmed to PA Consulting that the Board has appraised financial matters through the Financing Committee ahead of PR24.</p> <p><i>Source: Email from Paul Kerr, Chief Financial Officer (SES Water) to PA Consulting on 28/09/2023</i></p>
	<p>External independent assurance of the financial modelling has been provided by NERA.</p>	<p>The findings from NERA's assurance confirm that they consider SES is financeable on an actual and notional basis.</p> <ul style="list-style-type: none"> <li><i>"In our opinion, the actual financial model developed by SESW/CEPA demonstrates the financeability of SESW's business plan over PR24 on an actual basis. The modelling shows that SESW achieves a marginal Baa1 rating from Moody's on average over PR24 in the base case, albeit with a strong Baa2 rating in 3 of the 5 years. Overall, SESW demonstrates a strong investment grade credit rating on an actual basis.</i></li> <li><i>Ofwat's notional model as populated by SESW/CEPA and our calculation of the theoretical AICR also indicate that SESW is financeable on a notional basis and achieves a notional rating of at least Baa1 (Moody's) and a- (S&amp;P) based on Ofwat's own notional model and metrics."</i></li> </ul> <p><i>Source: NERA on Financeability and Financial Resilience of PR24 Business Plan provided to PA Consulting by SES.</i></p>
	<p>The Board notes that on the basis described above, the business plan demonstrates compliance with our bond ratios for the 10-year period to 2033, and this aligns with our going concern assessment and long-term viability statement published in July 2023 in our APR , thereby confirming the Company's financial resilience over this timeframe.</p>	<p>We have seen evidence that the financeability testing demonstrates compliance with SES Water's bond ratios for the 10-year period to 2033 in Chapter 8 of the Business Plan:</p> <ul style="list-style-type: none"> <li><i>"The Company continues to be compliant with our bond covenants through the Business Plan period and up to 2033, in line with the 10-year time horizon in our annual long-term viability statements. These bond covenants applied when a business plan is submitted are tighter than those that operate on a year-to-year basis and are specifically designed to ensure that there is headroom to provide financial resilience against unplanned events."</i></li> <li><i>Source: BP, Chapter 8 (Financing our plan), Section E, p6</i></li> <li><i>See Table 1 for the annual ratios as presented in the Business Plan data tables (ICR, AICR, gearing ratio) Source: BP, Chapter 8 (Financing our plan), Section E, p7</i></li> </ul> <p>This aligns with SES Water's going concern and long-term viability statements found on p83-p84 of the 2023 annual report. See <a href="https://seswater.co.uk/-/media/files/seswater/about-us/publications/annual-report-2023/ses_water_annual-report_2023.pdf">https://seswater.co.uk/-/media/files/seswater/about-us/publications/annual-report-2023/ses_water_annual-report_2023.pdf</a></p>
	<p>The Board acknowledges that the Company is not resilient to extreme downside scenarios in which case action would be necessary to suspend dividends and/or obtain additional equity.</p>	<p>The Board have approved the stress testing work and results, as is documented in the Financing Chapter. It acknowledges that the company is not resilient to extreme downside scenarios in which case action would be necessary to suspend dividends and/or obtain additional equity. The Board also provide such assurance from the NERA report that also covered a review of the stress testing and financial resilience work</p> <p><i>Source: Email from Paul Kerr, Chief Financial Officer (SES Water) to PA Consulting on 29/09/2023</i></p>



# 09

**Assessment of Existence of  
Evidence Cited in relation to  
Customer Engagement  
Board Assurance Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## Customer engagement (1 of 5)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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</b></p>	<p>The Company adopted a multi-tiered approach to customer and stakeholder engagement, drawing on internal and wide-ranging external expertise to provide the Board with reassurance as to the robustness of the research and the quality of the outputs that have then been used to inform our business plan and LTDS.</p>	<p>SES Water has drawn on a wide range of external expertise such as; Beryl Wall as part of the CSP panel, DJS Research, Explain, Given, ICS Consulting, Impact and Create51 to help provide the Board with reassurance as to the robustness of the approach to customer and stakeholder engagement. Findings of the CSP relating to the quality of SES Water’s customer research are documented below.</p> <ul style="list-style-type: none"> <li>“We are happy to provide assurance that the company’s customer engagement and research has met the standards for high quality research set out by Ofwat in its 2022 positioning paper, as well as other external definitions of high-quality research, and that this has been used to inform the development of the LTDS and PR24 business plan. SES’ level of customer engagement has been impressive and an area that the company appears keen to develop further on an ongoing basis. The quality of SES Water’s research has increased as the process has developed. We have provided challenge on a number of aspects of the company’s research, including the amount of time we have been given to review materials, and the executive team and their agencies have accepted these challenges and made the necessary changes. These problems are to be expected given the resources available to the company and its small customer base with a very uneven demography, providing challenges to normal sampling processes. We have seen a continuous improvement in the quality of the research over the year, and this is to be commended. We believe that the LTDS is indeed being informed by this research” Source: Final Assurance Report (v1.6) on SES Water’s Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</li> </ul> <p>SES Water has provided evidence to PA Consulting to indicate it is at the frontier of customer engagement across industry:</p> <ul style="list-style-type: none"> <li>“SES received more ‘Your Water Your Say’ session sign ups than any other water company’. Focus groups have been engaged (including vulnerable customers; future bill payers). Business Customer views being sought as well; not just domestic customers. Surrey Youth Council &amp; work experience customers also engaged. CAB engaged on vulnerable customers. Didn’t do any of this at PR19 so determined to do more this time.” Source: Discussion between PA Consulting and Kate Thornton, Chief Customer Officer for SES Water on 05/09/2023</li> </ul> <p>We note that SES has carried out a multi-tiered approach to customer engagement, where they have carried out additional customer research on Smart Metering and support for a small company premium (SCP).</p> <ul style="list-style-type: none"> <li>“The role of technology brought about mixed views. Some customers are highly supportive of smart metering and see it as essential to reduce demand. Future customers considered it to be vital and something that should be progressed. Others do not believe it will help and are not supportive of smart meters. In our Bespoke 2 research, 41% of customers said they didn’t think a smart meter would help them to reduce demand.” Source: PR24 BP, Chapter 5 (Our customers and their priorities), p17</li> <li>“SES Water commissioned Explain to conduct independent research with the aim of understanding customer support and ultimately customer willingness to pay a small company premium (SCP). Overall, this research has revealed a mixed level of customer support regarding the SCP for the PR24 bill period. More (47%) are supportive than find it unacceptable (34%), however no strong consensus was achieved.” Source: Explain: SCP acceptability report prepared for SES Water, September 2023</li> </ul>
	<p>The engagement and research plans specifically developed for PR24 built on the outputs of the Company’s routine programme of engagement that continuously evaluates customer satisfaction and invites stakeholder feedback, such as reviews of customer complaints, feedback from our on-line panel ‘Talk on Water’ and analysis of our C-MeX results.</p>	<p>We have seen evidence that SES Water has received positive feedback from Ofwat for its number of sign ups to the ‘Your water, your say’ events:</p> <ul style="list-style-type: none"> <li>“Praise from Ofwat / CCW (in build up to meeting) for markedly higher number of signs up and questions submitted in advance compared to other company ‘You water, your say’ events” Source: SES Water Board meeting (May 2022)</li> </ul> <p>PA Consulting is unable to comment on the Company’s historic programme of engagement prior to PR24.</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Customer engagement (2 of 5)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>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.</p>	<p>To ensure a more holistic approach to engagement, in support of a high-quality research programme, and to improve on what the Company delivered for PR19, the Board supported the Company’s proposal for multiple external agencies to be engaged to deliver different aspects of the overall engagement plan, from establishing Company priorities, through the setting of ambition and genuine customer choices, and finally ensuring the plan was deliverable and affordable for customers.</p>	<p>SES Water sought advice from several external advisors to ensure a holistic approach to customer engagement at PR24:</p> <ul style="list-style-type: none"> <li>• <b>CSP</b> – provided challenge to Board and management on engagement approach with respect to Ofwat requirements.</li> <li>• <b>Create 51</b> - customer engagement; LTDS development; and documentation and presentation materials</li> <li>• <b>DJS Research, Explain, Given, ICS Consulting and Impact</b> – research partners formulating and delivering our customer engagement programme</li> </ul> <p>We have seen evidence in Chapter 5 of the Business Plan and from the CSP’s findings that have supported the approach SES Water has taken at PR24 relative to its approach to PR19:</p> <ul style="list-style-type: none"> <li>• <i>“We have addressed the feedback received at PR19 that our research findings were not robust enough and we didn’t reach a wide enough range of customers.” Source: PR24 BP, Chapter 5 (Our customers and their priorities), p5</i></li> <li>• <i>‘We have been very encouraged by the way that SES Water has expanded its customer and stakeholder research and engagement since PR19. We strongly encourage the company to keep building on this going forward. The company has made some very strong additions to its team in recent years, and this has resulted in a measurable increase in innovation. We recognise that retaining talent is a challenge for a company of SES Water’s size, but there is every reason to hope that the company can become as industry leading in areas like consumer vulnerability and stakeholder engagement as it is in leakage reduction, with a good chance of becoming an employer-of-choice as a result.’ Source: Final Assurance Report (v1.6) on SES Water’s Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> </ul>
	<p>The Board ensured that the total number of customers targeted for engagement was increased compared to PR19 and the range of processes and channels adopted for PR24, and the mix of qualitative and quantitative research, ensured there were good response rates to inform the outcomes.</p>	<p>We have seen evidence in Chapter 5 of the Business Plan and from the CSP’s findings that have supported the greater depth and breadth of SES Water’s engagement plan at PR24 relative to its approach to PR19:</p> <p><i>“We have addressed the feedback received at PR19 that our research findings were not robust enough and we didn’t reach a wide enough range of customers. To ensure our PR24 business plan is built on high-quality research we have:</i></p> <ul style="list-style-type: none"> <li>• <i>Used a combination of qualitative and quantitative methods to achieve both depth and breadth of understanding of customer views;</i></li> <li>• <i>Increased the sample sizes for quantitative surveys, with each piece of research including at least 500 household customers;</i></li> <li>• <i>Used a variety of methods to encourage engagement such as online and in-person focus groups, online surveys, face to face and telephone interview and on-street recruitment;</i></li> <li>• <i>Included younger customers in our research and carried out specific engagement with future customers;</i></li> <li>• <i>Set research quotas for different customer groups that reflect the geographic and demographic makeup of our customer base;</i></li> <li>• <i>Worked more collaboratively with our neighbouring companies to share research best practice, techniques and outputs; and</i></li> <li>• <i>Triangulated our research findings with other sources including insight from our day-to-day interactions and research carried out by others”</i></li> </ul> <p><i>Source: PR24 BP, Chapter 5 (Our customers and their priorities), p5-p6</i></p> <ul style="list-style-type: none"> <li>• <i>“Since PR19 in particular SES Water has really lent into the blended opportunities provided with digital as well as in person engagement. This has meant that sample sizes, which were an issue in PR19, have not been an issue this time around.” Source: Final Assurance Report (v1.6) on SES Water’s Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## Customer engagement (3 of 5)



SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>The Board has oversight of on-going customer engagement activities through periodic updates presented at Board meetings and was directly involved in the process to review, challenge and approve both the over-arching planned approach to the customer and community engagement plan for PR24 and the draft materials to be used for each stage of customer research.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board challenged the overall customer engagement plan:</p> <ul style="list-style-type: none"> <li><i>The Board reviewed the Customer Engagement Plan and challenged management to ensure effective alignment with Ofwat process, engagement of CSP as part of overall customer assurance work and to provided the Board with further details on Bespoke 1 &amp; 2 research. Management reviewed the items with the Board in the session as detailed in the deck - and reviewed the approach to Bespoke 1 and 2 work. Board approved customer engagement plan. Source: SES Water Board meeting (September 2022)</i></li> <li><i>Following a detailed review of the latest customer research results, the Board challenged how do we ensure that customer feedback from research is aligned to our plan and what have we changed accordingly. Customer research feedback sessions to be held with PR24 team and Board to ensure plan alignment. The Business Plan chapters will also link the customer feedback to outcomes. Source: SES Water Board meeting (May 2023)</i></li> </ul> <p>See further evidence of ongoing consultation with the Board with the progress of SES's customer engagement programme against the next evidence point below.</p>
	<p>The development of the engagement materials, progress of delivery and the outcomes of each stage were reviewed in detail by the NED with specific expertise in this area, at each stage, and the Board has also discussed how each element of research has been used to inform our future plans.</p>	<p>We have seen evidence of the assigned NED to review engagement materials and outcomes at each sage of the customer plan in Chapter 5 of the Business Plan:</p> <ul style="list-style-type: none"> <li><i>"We have established mechanisms for insight to be formally shared across the business and monitor changes and trends closely, sharing them regularly with our Board. We have established a Customer Committee, attended by our Chief Executive Officer and one of our independent NEDs." Source: PR24 BP, Chapter 5 (Our customers and their priorities), p4</i></li> </ul> <p>Kate Thornton [Chief Customer Officer for SES Water] confirmed that the Board did discuss the design and progress of the Customer Engagement with the NED with specific expertise [Jon Woods] at regular monthly (or more frequent) sessions:</p> <ul style="list-style-type: none"> <li><i>"The NED did not specifically see the design of all the research materials but did input into the design of the programme and how we were approaching it, as well as seeing the outcomes and how these were influencing the plan. For example, SES ran a session with the NED on 4 July to take them through the Bespoke 2 evidence and how it had been triangulated to input into the development of the plan." Source: Confirmed via email by Kate Thornton (Chief Customer Officer for SES Water) on 27/09/2023</i></li> </ul>
	<p>The Board also recognised that more could be done to increase the demographic and socio-economic breadth of customers involved in the research compared to PR19. Improved data analysis enabled us to target specific areas so that the respondents better aligned with our customer base. We specifically promoted the inclusion of future bill-payers (through engagement with Surrey Youth Cabinet and those attending work experience programmes at the Company), and those that would be classed as vulnerable.</p>	<p>We have seen supporting evidence from the CSP that the Company has made effort to reach out to a wide demographic of customers as part of its engagement plan:</p> <ul style="list-style-type: none"> <li><i>"We confirm that the company has made strenuous efforts to ensure that this diversity has been adequately factored into its research and engagement. For example, in its second piece of bespoke research, 'Bespoke 2', SES Water conducted additional interviews to correct for over-representation of ABC1 customers in the initial sampling, and has created a new stakeholder forum to help it understand the needs of customers at risk of vulnerability. Another example is the company's 'Bespoke 3' research on social tariff options. The executive team asked its agency to boost sample sizes in Sutton and Merton to ensure that they had adequate samples from those areas, which typically have higher levels of customers with vulnerabilities, even after they had exceeded their overall sample target size with 598 responses. We are confident in our ability to offer assurance against this principle [Understanding Current And Future Customers] and would like to commend the company for the significant progress it has made since PR19 in understanding the customers and communities it currently serves.</i></li> <li><i>In our view, the company has taken all the steps necessary to provide customers and stakeholders with the information required for them to fully understand the implications of their preferences for investment. They have also included some future bill payers in this engagement. Given that the LTDS runs to 2050, and many people who will be paying SES Water bills in 2050 have not been born yet, there is an inherent bias towards the needs and interests of current customers in the way this research and engagement has been conducted. However, this is a function of Ofwat's methodology and not of the way that SES Water has structured its work. We are comfortable in assuring that the company has done everything it can to drive outcomes informed by both long-term affordability and fairness." Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

## Customer engagement (4 of 5)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>The improved promotion and delivery of our surveys, focus groups and forums across a wider audience gives the Board confidence that the resultant plan represents the views of all customers. Evidence of the plan being adapted to account for customer preferences (from Bespoke 2 research) can be seen in the decision to deliver a faster reduction in leakage than was initially proposed, and to deliver a non-statutory environmental programme.</p>	<p>The first statement is a consequence of the statements above, so no additional supporting evidence is required.</p> <p>We have seen evidence taking into account customer preferences to deliver faster leakage in Chapter 5 of the Business plan:</p> <ul style="list-style-type: none"> <li>“We tested customers’ views on whether the statutory target to reduce leakage by 50% by 2050 was acceptable enough, with 53% of customers saying it wasn’t. When presented with investment choices on the possible pace and extent of leakage reduction with associated bill impacts, 40% of customers opted for us to reach the 50% target by 2040 and 35% wanted us to exceed the 2050 target and achieve 60%.” Source: PR24 BP, Chapter 5 (Our customers and their priorities), p17</li> </ul> <p>The Board subsequently approved the fast-track programme in light of customer research for support. Source: SES Water Board meeting (February 2023)</p>
	<p>The Board has encouraged the Company to collaborate with other water companies in the South East to compare findings and support proposals that may relate to specific impacts of the customer demographic and shared water resource challenges and has supported how the outputs of the independent industry-wide customer research conducted Ofwat and Consumer Council for Water should be considered where they do not fully align with our own engagement and research.</p>	<p>We have seen evidence from Board minutes and / or papers that the Board has encouraged SES Water to collaborate with the other water companies that form the WRSE, and ensured that both the BP and LTDS were aligned with the WRMP. Source: SES Water Board meeting (July 2022)</p> <ul style="list-style-type: none"> <li>Following a detailed review of the latest customer research results, the Board challenged how do we ensure that customer feedback from research is aligned to our plan and what have we changed accordingly. Customer research feedback sessions to be held with PR24 team and Board to ensure plan alignment. BP chapters will also link the customer feedback to outcomes. Source: SES Water Board meeting (May 2023)</li> </ul> <p>We have seen evidence from the WRMP that states how SES Water has conducted both its customer and stakeholder engagement:</p> <ul style="list-style-type: none"> <li>“Due to the implications of regional planning, each company in the southeast worked together (as part of WRSE) to engage with customers and stakeholders. This included establishing stakeholder groups comprising the Stakeholder Advisory Board, the Environmental Advisory Group, and the Multi-sector Advisory Group to ensure focused engagement and advice on key aspects of the plan. Statutory and non-statutory members formed part of the advisory groups, and engagement was undertaken with the wider stakeholder community through meetings and the use of online channels”</li> </ul> <p>Source: Our Water Resources Management Plan 2025 to 2075: REVISED DRAFT, August 2023, p12</p>

# Business Plan and LTDS Assurance: PA Consulting findings

## Customer engagement (5 of 5)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>The CSP has provided independent reviews and assurance of our approach to customer engagement research, how we have interpreted the outcomes of that research and then considered that in the development of our LTDS and business plan. They have also sought their own external assurance from an independent consultant with extensive experience in design and management of qualitative and quantitative studies in the utility sectors, to support them in their assessment and to ensure Ofwat's expectations on independent assurance of the process has been met. The CSP were continuously updated as to the format of planned customer engagement, progress being made and outcomes of the research throughout the development of the plan, attended forums and 'Your Water, Your Say', and have documented, and presented to the Board, their own independent assurance report on SES Water's customer and stakeholder research and engagement [Appendix SES040 – Customer and Environmental Scrutiny Panels – Final Assurance Report].</p>	<p>SES Water sought advice from the CSP to provide independent challenge to the Board and management on its engagement approach with respect to Ofwat requirements. See evidence presented on p64.</p> <p>SES Water commissioned support from an independent consultant – Beryl Wall – who operated under the following scope:</p> <p><i>"In summary, I would be looking to ensure that SES Water's customer research:</i></p> <ul style="list-style-type: none"> <li><i>• is designed to reflect quality rather than quantity</i></li> <li><i>• is useful and contextualised:</i></li> <li><i>• it must have practical relevance; it must be clear why the research was undertaken, how it was conducted and what it will contribute to SES Water's PR24 submission</i></li> <li><i>• takes account of future bill-payers as well as current customers</i></li> <li><i>• ensures that willingness to pay is rooted in the overall context of household affordability</i></li> <li><i>• reflects Ofwat's desire for "more robust research to ensure customers' voices are heard and better understood"</i></li> <li><i>• is implemented in accordance with the MRS Code of Conduct.</i></li> </ul> <p><i>I would provide brief written commentary summarising my reviews and explaining my reasoning (submitted initially to the Challenge Group Chair), and am happy to talk my views through with the Group and with SES Water face-to-face when required and where appropriate."</i></p> <p>Source: Beryl Wall scope of work shared with PA Consulting on 07/09/2023</p> <p><b>We have seen evidence of the CSP's findings as part of their independent assurance report.</b></p> <p>We have also been informed by Dan Le Roux, Head of Customer Insights &amp; Analytics at SES Water, on 06/09/2023 that SES Water met with the CSP twice weekly during the PR24 process.</p>
	<p>Customer research showed 66% of household customers found the final plan proposed acceptable or completely acceptable, or 85% of those expressing a view, and 79% non-household customers.</p>	<p>We have seen evidence of this statement in Impact's report findings:</p> <ul style="list-style-type: none"> <li><i>• "Looking more into the proposed plan itself, levels of acceptability were high, with 66% of HHs finding the proposed plan either 'acceptable' or 'completely acceptable'"</i> Source: Impact: affordability and acceptability report prepared for SES Water, September 2023</li> </ul> <p>Source: Impact, report (updated 22 09 2023) for SES Water provided to PA Consulting 22 09 2023</p>

# 10

## **Assessment of Existence of Evidence Cited in relation to Ambition Board Assurance Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## Ambition (1 of 2)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>The Board believe the Company's business plan is ambitious and reflects the expectations and priorities of our customers, stakeholders, regulators and government.</p>	<p>The Board are proud of the Company's record of performance delivery relative to the rest of the industry. Our ambition will be to maintain that strong relative performance where we are already industry leading, and generally to build incremental improvements in service where that is supported by customers or dictated by regulation.</p>	<p>We have seen evidence of SES Water's track record of delivery relative to the rest of the industry and relative outperformance in Chapter 3 of the Business Plan.</p> <p>Table 2 ("Current Performance Summary") presents SES Water's current performance against its own target and the industry average. SES Water state that it is performing better than the industry average across several performance commitments, including water quality compliance (CRI), customer contacts about water quality, supply interruptions over 3 hours, mains repair, leakage, and water treatment works unplanned outages. <i>Source: BP, Chapter 3 (About us and our track record), Table 2, p6</i></p>
<p>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.</p>	<p>As a small water-only company, the Board believes that the Company has had to be pragmatic and proportionate and make some strategic choices in respect of its level of ambition, ensuring that our service always remains deliverable and affordable for customers. Where we have greater improvements to make in our current performance, such as C-MeX and D-MeX, we are targeting consistent performance above the industry median; where we already have upper quartile performance and a demonstrated history of network innovation we are set to deliver frontier shifting levels of ambition, for example in reducing leakage.</p>	<p>We have seen evidence of SES Water's commitment to both improve and maintain certain aspects of its current performance during PR24 in Chapters 3 and 6 of the Business Plan:</p> <ul style="list-style-type: none"> <li>• <i>"In the PR24 period, we want to improve our C-MeX scores and consistently perform above the water industry median throughout the period. We will fund this level of performance predominantly from base expenditure; we anticipate that enhancement cases in other areas may contribute to a small improvement in performance on C-MeX, mainly PCC through our smart customer programme."</i> <i>Source: BP, Chapter 6 (The outcomes we will deliver), p29</i></li> <li>• <i>"Our ambition in this area is for all developer services customers, including the competitive element to agree that they have received a reliable, consistent and efficient service from us. In the PR24 period, we want to improve our D-MeX scores and consistently perform at the median or above the water industry median throughout the period. We will fund this level of performance from base expenditure."</i> <i>Source: BP, Chapter 6 (The outcomes we will deliver), p30</i></li> <li>• <i>"Our leakage performance is among the best in the industry, below the industry average for the two comparative measures used by Ofwat. Against the leakage per property per day measure we rank second in the industry, while against the leakage per kilometre of water main measure we rank 5th and we have consistently been in the upper quartile of the industry over recent years. We are one of the minority of companies who have met their leakage reduction targets in every year of the current AMP."</i> <i>Source: BP, Chapter 3 (About us and our track record), p14</i></li> </ul>
	<p>One of our most challenging levels of ambition is in the planned reduction in PCC of 11% (relative to the level in 2019/20) by 2030. Our customer demographic, South East climate and current level of metering penetration means that to achieve this we plan to invest heavily at PR24 in a smart metering programme, tariff innovation and customer awareness, driven by both base and enhancement expenditure.</p>	<p>We have seen evidence of SES Water's commitment to reduce PCC by 11% relative to 2019/20, by 2030, in Chapter 6 of the Business Plan:</p> <ul style="list-style-type: none"> <li>• <i>"By 2029/30 we plan to achieve a PCC reduction of 11% by 2030 from 2019/20 levels which allows us to meet the Government 2027 interim EIP target (based on our annual PCC glidepath). The main activities that will drive such a reduction is our smart metering programme which will incentivise customers to reduce their consumption and provide opportunities to identify any plumbing losses that may have gone unnoticed otherwise. We currently assess this as being around 10 l/hd/day on average. More specifically, implementing smart metering and monitoring devices and systems provides real-time data on individual water usage behaviour. This will empower our customers to monitor their consumption, make informed choices, and take measures to reduce it. It also facilitates fair pricing based on actual consumption (instead of estimated consumption) while reducing billing queries and discrepancies as seen with legacy non-smart meters and estimation.."</i> <i>Source: BP, Chapter 6 (The outcomes we will deliver), p26-p27</i></li> </ul>

# Business Plan and LTDS Assurance: PA Consulting findings

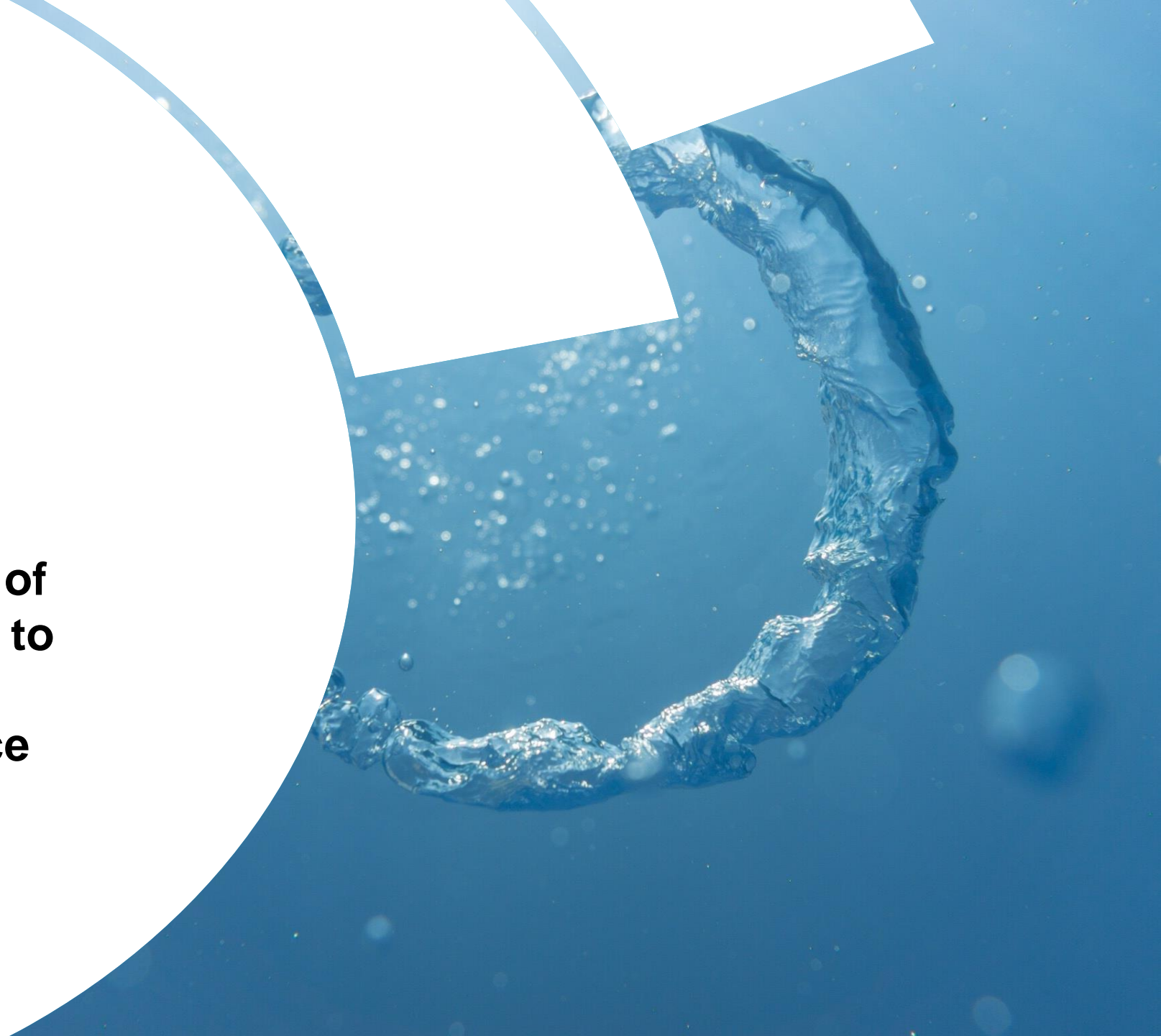
## Ambition (2 of 2)

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p>The Board believe the Company's business plan is ambitious and reflects the expectations and priorities of our customers, stakeholders, regulators and government.</p> <p>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.</p>	<p>Our plan proposes an ambitious ongoing efficiency target for our CAPEX and OPEX forecasts for AMP8 of 1%. The Board considers that this is a stretching and ambitious efficiency target, but one considered necessary to ensure that we are able to maintain our network effectively while keeping bills affordable for customers. This target is above the plausible target range of 0.3-0.8% proposed by Economic Insight for ongoing efficiency at PR24, therefore we consider this appropriately stretching.</p>	<p>We have seen evidence of Board minutes and/or papers where the Board has agreed that the 1% ongoing efficiency target is appropriate and stretching for the Company and helps keeps bills affordable for customers:</p> <ul style="list-style-type: none"> <li><i>The use of Frontier Shift terminology in documents was not deemed clear to the common reader. A more thorough consideration of frontier shift efficiency was achieved by the Board through this session, with a 1% ongoing efficiency rate approved by the Board to be incorporated into the Business Plan. Our adaptive plans that have informed our enhancement claims for AMP8 and our core pathway has been underpinned by our modelling in the Copperleaf tool, feedback from the customer engagement process and a number of key technological choices we consider will provide best value to deliver on our outcome ambitions (e.g. faster rollout of smart meters and investments in resilience). Source: SES Water Board meeting (July 2023)</i></li> </ul> <p>We note that the Economic Insight study carried out on behalf of a consortium of companies that identified a range for ongoing efficiency at PR24 of 0.3 – 0.8% can be found here: <a href="https://www.economic-insight.com/wp-content/uploads/2023/05/Frontier-shift-at-PR24-05-04-23-STC.pdf">https://www.economic-insight.com/wp-content/uploads/2023/05/Frontier-shift-at-PR24-05-04-23-STC.pdf</a></p>
	<p>The CSP report provides assurance that the plan represents appropriate ambition to ensure affordability for customers and financial support for vulnerable customers both now and in the future.</p>	<p>We have seen evidence from the CSP that the Business Plan represents an appropriate level of ambition to support the affordability of both current and future customers:</p> <ul style="list-style-type: none"> <li><i>"We are happy to provide assurance that the company is demonstrating appropriate ambition to ensure that bills are affordable for customers generally, for future bill-payers and for customers in financial hardship, both through the LTDS/PR24 business plan (following rigorous testing of Affordability and Acceptability as prescribed by Ofwat) and through the extensive work it has been doing to ensure customers are able to pay via its vulnerability strategy, including building referral partnerships with specialist charities. We are also satisfied that the company is able to demonstrate that it provides value for money through efficient and effective service, as shown through performance reports to CSP and ESP." Source: Final Assurance Report (v1.6) on SES Water's Customer and Stakeholder Research and Engagement, CSP and ESP, September 2023, Appendix 1</i></li> </ul>



# 11

**Assessment of Existence of  
Evidence Cited in relation to  
Compliance with Ofwat  
guidance Board Assurance  
Statement**



# Business Plan and LTDS Assurance: PA Consulting findings

## Compliance with Ofwat guidance

SES Water Board Assurance Statement	Evidence points cited by SES Water Board in support of the Board Assurance Statement	Evidence PA Consulting has identified that corresponds to the evidence points cited by the Board
<p><b>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.</b></p>	<p>Our plan also includes all relevant supporting evidence and has incorporated the assumptions and methodologies stipulated by Ofwat, or clearly explained and justified where we have deviated from the standard.</p>	<p>The process outlined below for compiling (by third parties) and assuring compliance (internally) with all Ofwat guidance provides evidence that assumptions and methodologies stipulated by Ofwat have been incorporated into the Business Plan and LTDS.</p>
	<p>Our plan has been internally assured against a guidance checklist prepared by CEPA and BRG, who reviewed and itemised all the requirements in Ofwat's PR24 Final Methodology, ensuring that each chapter addresses the minimum expectations specified by Ofwat as well other requirements and elements of general guidance.</p>	<p>PA Consulting has been provided with the Ofwat guidance checklists prepared by CEPA and BRG. <i>Source: LTDS weekly status call between SES Water and its advisers (including PA Consulting) on 21/08/2023</i></p> <p>SES Water requested confirmation from all section authors that the compliance has been followed. <i>Source: Email sent by Nicola Houlihan, Quality and Compliance Director at SES Water, to all SES Water chapter authors on 15/09/2023</i></p> <p>As of 12 noon BST on 29 September PA Consulting has not seen the outputs of this exercise to ensure that Ofwat compliance has been followed.</p>
	<p>The Board has approved the final documents produced.</p>	<p>We note that the Board has approved the submission of the final Business Plan and LTDS to Ofwat at the Board meeting on 26/09/23 (subject to delegation of final approvals for outstanding items to Ian Cain, Paul Kerr and Murray Legg).</p>



## About PA.

We believe in the power of ingenuity to build a positive human future in a technology-driven world.

As strategies, technologies and innovation collide, we create opportunity from complexity.

Our diverse teams of experts combine innovative thinking and breakthrough use of technologies to progress further, faster. Our clients adapt and transform, and together we achieve enduring results.

An innovation and transformation consultancy, we are over 4,200 specialists in consumer, defence and security, energy and utilities, financial services, government, health and life sciences, manufacturing, and transport. Our people are strategists, innovators, designers, consultants, digital experts, scientists, engineers and technologists. We operate globally from offices across the UK, US, Europe, and the Nordics.

**PA. Bringing Ingenuity to Life.**

### Corporate Headquarters

10 Bressenden Place  
London  
SW1E 5DN  
+44 20 7730 9000

[paconsulting.com](https://www.paconsulting.com)

This proposal has been prepared by PA Consulting Group on the basis of information supplied by the client, third parties (if appropriate) and that which is available in the public domain. No representation or warranty is given as to the achievability or reasonableness of future projections or the assumptions underlying them, targets, valuations, opinions, prospects or returns, if any, which have not been independently verified. Except where otherwise indicated, the proposal speaks as at the date indicated within the proposal.

### All rights reserved

© PA Knowledge Limited 2023

This proposal is confidential to the organisation named herein and may not be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical or otherwise, without the prior written permission of PA Consulting Group. In the event that you receive this document in error, you should return it to PA Consulting Group, 10 Bressenden Place, London, SW1E 5DN. PA Consulting Group accepts no liability whatsoever should an unauthorised recipient of this proposal act on its contents.



E. NERA Assurance Letter on Financeability and Financial Resilience of the PR24 Business Plan

28 September 2023

Board of Directors  
SES Water

## **NERA Assurance Letter on Financeability and Financial Resilience of the PR24 Business Plan**

Dear Sir or Madam

SES Water (“SESW”) requested NERA to provide assurance in relation to its financeability over PR24, including a review of its actual and notional financial models prepared for the PR24 business plan submission and assessment of its financeability and financial resilience over PR24.

This letter summarises our scope of work, our findings, and opinion whether SESW’s financial modelling is fit for the purpose and demonstrates its financeability and financial resilience over PR24.

### **1. Scope of Work**

Our review covered the following work items:

- **Item 1:** Review of SESW’s actual financial model assessing SESW’s actual financeability and financial resilience.
- **Item 2:** Review and verification of the results of the financeability and financial resilience modelling undertaken by SESW, and subsequent assessment of its financeability and financial resilience on an actual basis, drawing on SESW’s actual financial model. In addition, we have reviewed and verified the results of SESW’s notional financeability, drawing on SESW’s completed PR24 notional model.
- **Item 3:** Review of SESW’s completed Ofwat PR19 reconciliation models, which calculate adjustments related to PR19. These adjustments are inputs to the PR24 financial models.
- **Item 4:** High-level review of CEPA’s analysis of RoRE risk, which is part of SESW’s financeability submission to Ofwat.

Our completion of these work items relied on our knowledge of Ofwat’s regulatory calculations, gained through our work on financial modelling and financial issues at successive reviews and due diligence assignments.

The next sections summarise our findings for each of the work items set out above.

### **2. Review of SESW Actual Financial Model**

In this section, we summarise the scope and conclusions of our review of i) the SESW actual financial model and, in particular, ii) whether the revenue requirement generated by the actual model aligns with that from the Ofwat PR24 notional financial model.

We have reviewed the financial model that SESW will use to support its actual financeability as part of its PR24 Business Plan submission. We understand that the model was developed with the assistance of CEPA.

Our focus was on reviewing whether the model accurately reflects Ofwat’s wholesale and retail price controls and is suitable to assess the actual financeability and financial resilience of SESW’s business plan.

As part of our model audit, we thus assessed i) whether the calculation of the allowed revenue in the SESW actual financial model is consistent with that in Ofwat’s PR24 notional financial model; ii) whether the regulatory parameters contained in SESW’s model are consistent with Ofwat’s PR24 Final Methodology; and iii) whether the calculations in the actual financial model are conceptually and arithmetically correct.

Our model audit encompassed core sections of the SESW financial model, namely the sections “Summary”, “Calcs”, “Outputs”, and “Scenarios”. It did not involve a detailed review of the SESW raw business plan inputs (i.e., the various cost inputs).

Throughout our review process, we have compiled a log of modeling issues which we have subsequently shared with the SESW financial modeling team and CEPA. This log provides a comprehensive list of our findings and is included alongside this letter for reference. Following discussion of these issues with SESW and CEPA, we do not consider that there are any outstanding model issues that affect the model’s accuracy with respect to the actual financeability of the SESW PR24 business plan.

Regarding the consistency with Ofwat’s regulatory parameters, we note that in its financial modelling for PR24, SESW chose an RCV run-off rate of 7 per cent, very marginally lower than the rate that allowed at PR19.<sup>1</sup> Ofwat’s guidance states that: “we would not expect companies to propose RCV run-off rates that are higher than those allowed at PR19 or that are above the guidance set out in table 7.2 [of 4.5 per cent]”.<sup>2</sup> Although unhelpfully ambiguous, Ofwat’s guidance appears to allow companies to submit RCV run-off rates at the same level as PR19 even where this is higher than 4.5 per cent. We understand from that SESW will acknowledge that its run-off rate is consistent with that allowed at PR19 although higher than 4.5 per cent in its submission to Ofwat, explaining that it would otherwise encounter financeability issues.<sup>3</sup>

### **3. Assessment of Financeability and Financial Resilience**

In this section, we assess whether SESW’s business plan for PR24 achieves an investment grade credit rating and complies with SESW’s bond covenants both on a notional and actual basis.

#### **3.1. Actual Financeability**

We first assess financeability on an actual basis, using SESW’s actual gearing and debt costs as projected in its financial model over PR24. Ofwat requires companies to demonstrate that they are financeable on an actual basis under their PR24 business plans.<sup>4</sup>

---

<sup>1</sup> At PR19, SESW chose an RCV run-off of 7.07 and 7.08 per cent for water resources and water networks respectively. Source: Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, p.56.

<sup>2</sup> Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, p.55.

<sup>3</sup> SESW (October 2023), PR24 Business Plan (draft), Section 8 – Financing our plan v1, p.7.

<sup>4</sup> Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, p.58.

Ofwat also sets out a minimum suite of downside scenarios that companies need to consider in their assessment of financial resilience on an actual basis, such as totex underperformance (10% of totex); or ODI penalty (3% of RoRE) in one year.<sup>5</sup>

In line with Ofwat's guidance, we assess financeability with reference to target credit ratings, using the methodology used by Moody's and S&P.<sup>6</sup> As set out in the SESW business plan submission, the company's minimum target is to maintain its current investment grade credit rating of Baa2 (Moody's).<sup>7</sup>

In addition, we assess the financeability of SESW against the financial covenants it faces on its senior secured bond. Compliance with the financial covenants requires SESW to achieve gearing of at most 80 per cent, an interest cover ratio of at least 1.3x and an adjusted interest cover ratio (which includes non-cash financing costs and therefore differs from Moody's AICR of at least 1.0x).<sup>8</sup>

### **Moody's**

As part of our model review, we have reviewed the Moody's scorecard functionality in the SESW actual financial model against the latest (i.e., August 2023) rating methodology published by Moody's.<sup>9</sup>

Table 3.1 summarises Moody's scorecard approach to calculating the overall credit rating based on different sub-factors and sets out SESW's modelled sub-factor ratings over PR24. The table shows the five financial ratios considered by Moody's (i.e., Capex/RCV, AICR, Gearing, FFO/Net debt, RCF/Net debt) calculated assuming SESW's actual financial structure and allowed revenues as per its PR24 business plan submission. Combining these credit ratio scores with the qualitative factor scores Moody's assigned to SESW in its latest ratings report,<sup>10</sup> implies an overall credit rating of Baa1 over PR24 on average based on the actual financing structure, as shown in Table 3.1.

---

<sup>5</sup> Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, p.59.

<sup>6</sup> Moody's and S&P are the two credit rating agencies covering SESW and hence we have applied their methodologies to assess the financeability of SESW.

<sup>7</sup> SESW (October 2023), PR24 Business Plan (draft), Section 8 – Financing our plan v1, p.6.

<sup>8</sup> Based on information from SESW.

<sup>9</sup> Moody's Investor Service (18 August 2023), Regulated Water Utilities Rating Methodology.

<sup>10</sup> As reported in SES\_Model\_v.3.21\_Base (1).xlsm, sheet "Moody's scorecard".

**Table 3.1: We calculate an average Baa1 credit rating from Moody's for PR24 assuming SESW actual financial structure and its PR24 business plan**

Category	Ratio result	Rating	Numerical Score	Penalty	Total Score
<b>Factor 1: Business Profile (50%)</b>					
Stability and Predictability of Reg. Env't (15%)	-	Aa	3	1	0.36
Asset Ownership Model (5%)	-	Aa	3	1	0.12
Cost and Investment Recovery (15%)	-	A	6	1	0.71
Revenue Risk (5%)	-	Aa	3	1	0.12
Scale and Complexity of Cap. Programme, i.e., Capex / RCV (10%)	9.7%	Baa	9	1.15	0.82
<b>Factor 2: Financial Policy (10%)</b>					
Financial Policy (10%)	-	Ba	12	2	1.90
<b>Factor 3: Leverage and Coverage (40%)</b>					
AICR (12.5%)	1.51	Baa	1.15	9	1.03
Gearing (10%)	70.7	Ba	2	12	1.90
FFO/Net debt (12.5%)	12.2%	Baa	1.15	9	1.03
RCF/Net Debt (5%)	9.7%	Baa	1.15	9	0.41
<b>Total Moody's Grid Score &amp; Implied Rating</b>		<b>Baa1</b>			<b>8.40</b>

Source: NERA analysis of SESW actual PR24 financial model.

## **S&P**

We have also assessed the financeability of SESW's PR24 business plan against the rating methodology applied by S&P. S&P assesses companies' credit rating along two dimensions: First, it considers its Business Risk profile which it determines through an assessment of country risk, industry risk, and the competitive position of the company. Second, it considers the Financial Risk profile of the company, for which it considers a range of financial ratios including the "core ratios" FFO/debt and debt/EBITDA and "supplementary ratios" which include FFO/cash interest, EBITDA/interest, and others.

We understand that S&P's latest (November 2022) rating report for SESW reports its Business Risk profile as "Excellent", which is the highest possible score from S&P.<sup>11</sup>

Table 3.2 below sets out the ratios that go into S&P's assessment of the Financial risk, calculated assuming SESW's actual financial structure. Unlike Moody's, S&P does not have a prescribed approach of combining the different financial ratios in a final score for its Financial risk assessment. We understand that S&P focusses primarily on the "core ratios" FFO/debt and debt/EBITDA to determine companies' Financial risk profile. Although it focuses on these two ratios, our experience is that S&P tends to place greater weighting on FFO/debt in the case of water companies. We calculate an FFO/debt ratio of 10.6 per cent and a debt/EBITDA ratio of 5.8 on average over PR24,

<sup>11</sup> S&P Global Ratings (10 November 2022), Research Update: Sutton and East Surrey Water PLC 'BBB' Rating Affirmed; Outlook Remains Negative, p.5.



which supports a “Significant” to “Aggressive” financial risk profile for the actually financed SESW based on S&P’s methodology.<sup>12</sup>

**Table 3.2: S&P ratios support “Significant”/”Aggressive” Financial risk profile for actually financed SESW**

	PR24 average	S&P assessment
<b>Core ratios</b>		
FFO/debt	10.6%	Significant
Debt/EBITDA	5.8	Aggressive
<b>Supplementary coverage ratios</b>		
FFO/cash interest	2.4	Significant
EBITDA/interest	2.8	Significant
<b>Supplementary payback ratios</b>		
CFO/debt	16.7%	Intermediate
FOCF/debt	-3.4%	Aggressive
DCF/debt	-5.9%	Aggressive

Source: NERA analysis of SESW actual PR24 financial model.

Combining an “Excellent” Business risk profile and “Significant” to “Aggressive” Financial risk profile supports an overall a-/bbb rating from S&P based on its rating matrix.<sup>13</sup> We understand that in the case of water utilities S&P typically places greater weight on FFO/debt which would support a “Significant” Financial risk profile and an overall a- rating from S&P.

### **Bond covenants**

We have also reviewed whether SESW complies with its bond covenants given its actual financial structure and PR24 business plan. This included checking the conceptual and arithmetic accuracy of the three different covenant ratios calculated in the SESW actual financial model against the covenants set out in the original bond agreement.

As shown in Table 3.3, SESW complies with its three bond covenants (gearing, interest cover ratio and adjusted interest cover ratio) throughout the PR24 period under its expected financing plan and given PR24 business plan revenues.

<sup>12</sup> S&P Global Ratings (19 November 2013), Corporate Methodology, p.34.

<sup>13</sup> S&P may also apply a number of upward or downward modifiers to the credit rating determined on the basis of the Business risk and Financial risk, to reflect the effects of diversification, capital structure, financial policy, liquidity, management governance and comparable rating analysis. In its latest ratings update on SESW, S&P makes no upward or downward adjustment based on any of these factors but considers these are “neutral”. We assume that the effect of these modifiers will remain neutral over the PR24 period, so that the overall rating is determined by the Business risk and Financial risk assessment. See S&P Global Ratings (10 November 2022), Research Update: Sutton and East Surrey Water PLC 'BBB' Rating Affirmed; Outlook Remains Negative, pp.5-6.

**Table 3.3: SESW complies with bond covenants under its actual financing plan and PR24 business plan revenues**

	Threshold	2025/26	2026/27	2027/28	2028/28	2029/30
Gearing	max. 80%	66.3%	67.7%	70.5%	72.0%	73.4%
ICR	min. 1.3	1.83	1.79	1.66	2.52	1.89
AICR	min. 1.0	1.18	1.18	1.20	1.99	1.62

*Note: Gearing is based on “Gearing (all cash)” measure in model, which considers total available cash in calculation of net debt.*

*Source: NERA analysis of SESW actual PR24 financial model.*

### **Stress-testing**

In its Final Methodology, Ofwat requested companies to model the impact of the following scenarios on their actual financeability:

- Totex underperformance (10 per cent of totex) over 5 years.
- ODI underperformance payment (3 per cent of RORE) in one year applied in year 2.
- Inflation below the assumption for the base case in the business plan (2 per cent below), to be applied in each year of the price review period.
- Deflation of -1 per cent for 2 years, followed by a return to the long-term inflation target.
- High inflation; a 10 per cent spike in inflation with a 2 per cent increase in wedge between RPI and CPIH, followed by two years at 5 per cent and a 1 per cent increase in wedge.
- Increase in the level of bad debt (20 per cent) over current bad debt levels applied in years 2 and 3.
- Debt refinanced as it matures, with new debt financed at 2 per cent above the forward projections of interest rates.
- Financial penalty equivalent to 6 per cent of one year of Appointee turnover applied in year 2.

SESW also considered a number of company specific scenarios, which we set out in Appendix A.

We have reviewed the Ofwat and company specific scenarios in SESW’s actual financial model, with a focus on whether these accurately reflect the intended variations relative to the base case and whether they are correctly reflected in the financial ratio calculations. Following discussion of a number of modelling issues with SESW and CEPA (as specified in the enclosed log of comments), we do not consider that there are any outstanding issues with SESW/CEPA’s scenario modelling.

Table 3.4 summarises the results of the verified modelling of the Ofwat scenarios, focusing on the impacts of the different scenarios on SESW’s key financial ratios and overall Moody’s and S&P credit ratings (we focus on the S&P rating implied by the FFO/net debt, given S&P typically places greater weight on this ratio as explained above). As shown, most scenarios still support a Baa1/Baa2 credit rating from Moody’s over PR24. However, in a limited number of cases, the rating falls to Baa3. In such circumstances, we would expect SESW to rely on the draw-down of liquidity facilities, the triggering of cash-lock up provisions and/or ultimately equity provision, to restore financial viability.

SESW retains a Baa1/Baa2 rating under each of the company specific scenarios (see Appendix A).

**Table 3.4: Ofwat actual financing scenario model results (impact on average ratios for PR24)**

Ofwat Scenario	Gearing (Moody's)	AICR (Moody's)	FFO/debt (S&P)	Implied Rating	Comment
Totex underperformance (10%) over 5 years	76.6%	1.14	8.2%	Baa3 (Moody's), bbb (S&P FFO/debt)	Moody's rating drops to Baa3; S&P FFO/debt drops below 9% supporting bbb S&P rating  Modelling does not incorporate risk mitigation in regulatory framework (i.e., sharing of overspend at the end of PR24)
ODI penalty (3% RoRE in year 2)	71.7%	1.42	10%	Baa2 (Moody's), a- (S&P FFO/debt)	Ratios deteriorate due to penalty in year 2, implying drop in Moody's rating to Baa2 but S&P based on FFO/debt remains above 9% threshold required for a-
Low inflation (2% below base throughout PR24)	69.0%	1.63	13.2%	Baa1 (Moody's), a- (S&P FFO/debt)	Slight improvement in ratios, continuing to support Baa1 (Moody's) and a- based on S&P based on FFO/debt
Deflation (-1% inflation in first two years)	68.1%	1.64	13.6%	Baa1 (Moody's), a- (S&P FFO/debt)	Slight improvement in ratios, continuing to support Baa1 (Moody's) and at least a- based on S&P based on FFO/debt

High inflation (+10%, +5%, +5% in years 1-3 respectively)	77.2%	1.27	5.2%	Baa3 (Moody's), bbb-/bb+ (S&P FFO/debt)	Moody's rating drops to Baa3; S&P FFO/debt drops below 6% target for bbb, implying risk of bbb-. However, modelling does not fully account for indexation of revenues in regulatory framework, which mitigates adverse impact of high inflation in practice
Bad debt increase	70.8%	1.50	10.5%	Baa1 (Moody's), a-(S&P FFO/debt)	Slight deteriorating in ratios but continue to support base case credit ratings
Refinancing at 2% above f cast rate	72.9%	1.25	9.2%	Baa2 (Moody's), a-/bbb (S&P FFO/debt)	Ratios deteriorate due to higher interest expenses, implying drop in rating to Baa2 (Moody's) and close to 9% FFO/debt threshold to drop to bbb (S&P)
Financial penalty (6% of Appointee turnover in year 2)	71.7%	1.42	10.0%	Baa2 (Moody's), a-(S&P FFO/debt)	Ratios deteriorate due to revenue penalty in year 2, implying drop in Moody's rating to Baa2 but S&P based on FFO/debt remains above 9% threshold required for a-

Source: NERA analysis of SESW actual PR24 financial model.

### 3.2. Notional financeability

We also assess SESW’s notional financeability on the basis of Ofwat’s notional financial model, which uses financing assumptions for a notional company (gearing, cost of debt, and share of ILD). Ofwat requires companies to also assess financeability based on these notional assumptions.<sup>14</sup>

As in the case of our financeability assessment on an actual basis (see Section 3.2), we assess notional financeability with reference to the credit ratings assigned by Moody’s and S&P. Ofwat requires companies to target a notional credit rating of at least two notches above the minimum required for investment grade or Baa1 on Moody’s rating scale.<sup>15</sup>

#### Moody’s

Ofwat’s notional model does not include Moody’s scorecard, e.g. it does not contain a module to calculate the sub-ratings for all financial ratios, and when combined with qualitative factors, the overall Moody’s rating, as included within SESW’s actual model (as summarised in Table 3.3 above).

In the absence of scorecard module, we have considered Moody’s notional rating in two ways. First, at PR19, Moody’s published specific guidance for the UK water sector which sets out target ranges for the gearing and AICR which take into account the effect of qualitative factors on the required thresholds for achieving a certain rating, as shown in Table 3.5 below.<sup>16</sup>

As shown, Moody’s requires an AICR of  $\geq 1.5x$  and gearing  $\leq 75$  per cent for Baa1 rating. SESW’s notional gearing is 55 per cent and the Moody’s AICR is 2.2, and therefore both of these ratios are comfortably above the Baa1 rating (where thresholds are gearing less than 72 per cent and AICR greater than 1.5).

**Table 3.5: Moody’s specific guidance for UK water sector on gearing and AICR**

Moody’s ratio guidance for the UK water utilities

Issuer Rating	Maximum RCV gearing (previous)	Maximum RCV gearing (new)	Minimum AICR (previous)	Minimum AICR (new)
A2	$\leq 60\%$	$\leq 55\%$	$\geq 1.8x$	$\geq 2.0x$
A3	$\leq 68\%$	$\leq 65\%$	$\geq 1.6x$	$\geq 1.7x$
Baa1	$\leq 75\%$	$\leq 72\%$	$\geq 1.4x$	$\geq 1.5x$
Baa2	$\leq 85\%$	$\leq 80\%$	$\geq 1.2x$	$\geq 1.3x$

Source: Moody’s (May 2018), *Regulated Water Utilities – UK Regulator’s proposals undermine the stability and predictability of the regime*, p.5.

Second, we have calculated the “theoretical AICR” based on its underlying economic form, which can be calculated independently of any financial modelling. Noting that AICR is equal to FFO less regulatory depreciation divided by cash interest, the AICR reduces to the real allowed return over cash interest, where cash interest is based on notional nominal rate and indexed-linked debt.<sup>17</sup> Ofwat also considered the theoretical AICR at PR19.

<sup>14</sup> Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, p.39.

<sup>15</sup> Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, p.39.

<sup>16</sup> Given UK water companies achieve comparatively higher scores on the qualitative factors, the rating thresholds in Moody’s specific guidance are less demanding compared to the general methodology.

<sup>17</sup> Ofwat (2019) PR19 final determinations: Aligning risk and return technical appendix, p. 82

Table 3.6 sets out the theoretical AICR for PR24 based on Ofwat’s PR24 final methodology values (or “early view”). This shows that the AICR is 1.64 implying a Baa1 notional rating, given Moody’s guidance in Table 3.5. The AICR is higher than the equivalent for PR19 of 1.32, as reported by Ofwat and reproduced below. The improvement in the AICR at PR24 is mainly explained by the full switch to CPI indexation which increases the estimate of the Appointee WACC in real CPIH terms and the reduction in notional gearing from 60 to 55 per cent.

**Table 3.6: Theoretical AICR at PR24 above 1.5 Baa1 threshold**

	PR19 FD	PR24 early view
A Appointee WACC (real)	2.52%	3.29%
B Notional gearing	60%	55%
C Proportion of ILD	33%	33%
D Allowed cost of debt (RPI ILD)	1.15%	1.60%
E Inflation	3.00%	3.00%
F Allowed cost of debt (nominal) =(1+D)*(1+E)-1	4.18%	4.65%
<b>AICR = A/[B*(C*D+(1-C)*F)]</b>	<b>1.32</b>	<b>1.64</b>

*Source: NERA calculations based on: Ofwat (2019) PR19 final determinations: Aligning risk and return technical appendix, p. 82. Ofwat (2023) Creating tomorrow, together: Our final methodology for PR24 Appendix 11 – Allowed return on capital, pp.7-8.*

## **S&P**

Ofwat’s notional model includes functionality to calculate the two core S&P ratios FFO/debt and debt/EBITDA. As shown in Table 3.7, the model indicates an FFO/debt of 14.4 per cent and EBITDA/debt of 3.84 per cent on average over PR24, which supports at least a “Significant” Financial risk profile for the notionally financed SESW based on the core ratios,<sup>18</sup> and could be interpreted to marginally support an “Intermediate” financial risk profile.

**Table 3.7: S&P core ratios support at least “Significant” Financial risk profile for notionally financed SESW**

	PR24 average	S&P assessment
FFO/debt	14.4%	Weak “Intermediate” or at least “Significant” (see Figure 3.1)
Debt/EBITDA	3.84	Weak “Intermediate or at least “Significant” (see Figure 3.1)

*Note: S&P’s “Intermediate” Financial risk profile is supported by an FFO/debt between 13-23 per cent and a Debt/EBITDA of 4-5x. The “Significant” Financial risk profile is supported by an FFO/debt between 9-13 per cent and Debt/EBITA of 4-5.*

*Source: NERA analysis of SESW’s completed Ofwat PR24 financial model.*

Combining these core ratio results with the “Excellent” Business risk profile S&P assigned to SESW in its latest rating report (see Section 3.1) supports an overall S&P rating over PR24 of at least a- (see Figure 3.1).

<sup>18</sup> This does not consider any potential Financial risk profile uplift S&P may apply on the basis of its supplementary ratios, which are not included in Ofwat’s financial model.

**Figure 3.1: S&P Guidance Supports at Least a- Notional Rating Based on SESW Core Ratio Results**

<b>Cash Flow/Leverage Analysis Ratios--Low Volatility</b>							
	--Core ratios--		--Supplementary coverage ratios--		--Supplementary payback ratios--		
	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	35+	Less than 2	More than 8	More than 13	More than 30	20+	11+
Modest	23-35	2-3	5-8	7-13	20-30	10-20	7-11
Intermediate	13-23	3-4	3-5	4-7	12-20	4-10	3-7
Significant	9-13	4-5	2-3	2.5-4	8-12	0-4	0-3
Aggressive	6-9	5-6	1.5-2	1.5-2.5	5-8	(10)-0	(20)-0
Highly leveraged	Less than 6	Greater than 6	Less than 1.5	Less than 1.5	Less than 5	Less than (10)	Less than (20)

<b>Combining The Business And Financial Risk Profiles To Determine The Anchor</b>						
Business risk profile	--Financial risk profile--					
	1 (minimal)	2 (modest)	3 (intermediate)	4 (significant)	5 (aggressive)	6 (highly leveraged)
1 (excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (strong)	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 (satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

Source: S&P Global Ratings (15 December 2021), *Corporate Methodology*, available at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/8314109>.

### **Overall conclusion on notional rating**

Overall, our analysis shows that SESW is rated at least Baa1 on Moody's rating and a- on S&P, and therefore is consistent with Ofwat's guidance that the notional company should be two notches above the minimum investment grade threshold.

## **4. Additional Assurance Items**

In this section, we summarise the additional assurance items covered by our review namely i) the review of CEPA's RoRE risk analysis, and ii) the review of SESW's completed PR19 reconciliation models.

### **4.1. CEPA RoRE Risk Analysis**

Ofwat asked companies to assess the potential risks they face in delivering their business plans with reference to the impact on the Return on Regulated Equity (RoRE). It proposed a range of low and high scenarios, and asked companies to justify any deviations from these scenarios.<sup>19</sup>

SESW commissioned CEPA to undertake its RoRE risk analysis that will be part of its business plan submission. We have been asked by SESW review CEPA's analysis on a high-level, including a review of the relevant chapter in SESW's draft business plan against Ofwat's guidance and an

<sup>19</sup> Ofwat (December 2022), PR24 final methodology, Appendix 10 – Aligning risk and return, pp.18-19.

assessment of the results of CEPA's analysis. Our review did not encompass the models and calculations underlying CEPA's analysis.

### **Summary of CEPA/SESW RoRE assumptions**

Table 4.1 sets out CEPA's RoRE risk assumptions compared to Ofwat's guidance.

As shown, CEPA's RoRE assumptions diverge from Ofwat in the risk areas of totex (wholesale and developer services), retail costs, ODI, MeX and financing. Specifically:

- On totex, CEPA assumes a narrower risk range of 6 per cent over/underspend compared to Ofwat's +/- 8.5 per cent. CEPA explains that compared to Ofwat's assumption based on long-term historical data, the narrower range also reflects considerations for measures that SESW can take to mitigate cost volatility, as evidenced over PR19.<sup>20</sup>
- On retail costs, CEPA assumes a similar RoRE upside as Ofwat but 21bps greater downside risk.<sup>21</sup> We understand from CEPA that SESW's RoRE is more sensitive to changes in retail costs relative to Ofwat's notional company assumption as it has a higher ratio of retail cost to regulated equity.
- On ODI, CEPA assumes greater downside risk of 3.12 per cent compared to Ofwat's central estimate of -2 per cent, which is the main driver of the difference in the overall higher downside RoRE risk calculated by CEPA compared to Ofwat. We understand that the higher ODI risk reflects SESW's view that the performance targets in its business plan are stretching and its expectations of how Ofwat may set the PR24 company-specific and common PCLs.<sup>22</sup> Nevertheless, we note that CEPA's downside RoRE risk assumption of -3.12 per cent is broadly aligned with the lower end of Ofwat's range of -3 per cent.
- On MeX, CEPA assumes a somewhat broader risk range compared to Ofwat's guidance.
- On financing, CEPA assumes marginally more downside risk due to SESW's status as small, infrequent issuer.<sup>23</sup>

Overall, we understand that CEPA's risk assumptions have been heavily guided by discussion with SESW and their management assumptions/judgements, particularly as regards the ODI risk which primarily drives the negative skew and key difference in the range compared to Ofwat's early view

---

<sup>20</sup> SESW Draft BP v1 Section 8, para 52.

<sup>21</sup> SESW Draft BP v1 Section 8, para 53.

<sup>22</sup> SESW Draft BP v1 Section 8, paras 57&61.

<sup>23</sup> SESW Draft BP v1 Section 8, para 70.



**Table 4.1: SESW and Ofwat RoRE Risk Ranges (% RoRE impact)**

Risk area	Ofwat Low (P10)	SESW Low (P10)	Ofwat High (P90)	SESW High (P90)
Totex (wholesale and DS)	-1.00% (8.5% overspend)	-1.08% (6% overspend)	+1.00% (8.5% underspend)	+1.08% (6% underspend)
Retail costs	-0.20% (10% overspend)	-0.41% (12% overspend)	+0.30% (19% underspend)	+0.27% (8% underspend)
ODI	-2.00% (midpoint of -1% to -3%)	-3.12%	+2.00% (midpoint of +1% to +3%)	+1.49%
Financing	-0.65%	-0.70%	+0.70%	+0.67%
MeX	-0.65%	-1.00%	+0.50%	+0.85%
Revenue	-0.05%	-0.05%	+0.00%	+0.00%
QAA	-0.30%	-0.30%	+0.30%	+0.30%
<b>Total RoRE risk</b>	<b>-4.85%</b>	<b>-6.65%</b>	<b>+4.80%</b>	<b>+4.66%</b>

Source: NERA analysis of Ofwat (December 2022), PR24 Final Methodology – Appendix 10 Aligning risk and return, p.11; SES Water Draft BP v1 Section 8G, p.17.

### **NERA comments**

During our review process, we have not identified any substantive issues with CEPA’s RoRE analysis. We have shared a detailed list of comments with CEPA, which we enclose with this letter. CEPA has reviewed and, where necessary, incorporated relevant adjustments in its business plan write-up of its RoRE analysis. Following this, we have not identified any remaining issues with CEPA’s RoRE analysis as reflected in its business plan write-up.

### **4.2. PR19 Reconciliation Models**

We have also been asked by SESW to review its Ofwat PR19 reconciliation models, which it completed with assistance from BRG. These models calculate adjustments related to PR19, which are inputs to the PR24 financial models.

Ofwat has published a series of models that set out how Ofwat will reconcile companies’ performance in 2020-25 for a range of revenue, cost, ODIs, and other factors, and how these will feed into revenue and RCV adjustments over PR24. Ofwat has also published a PR19 reconciliation guidebook for completion of the models.<sup>24</sup>

We reviewed the following four models (with the remaining models subject to assurance by others):

- Cost sharing model which reconciles actual performance against the totex allowance at PR24
- Developer services model which reconciles developer services revenues for outturn versus forecast connections

<sup>24</sup> Ofwat (August 2023) PR19 Reconciliation Rulebook: Guidance Document. L

- Residential retail model which reconciles allowed and recovered revenues.
- Outcome delivery incentives (ODI) for performance 2022-23.

We have reviewed the inputs against Ofwat's PR19 model guidance and we have provided comments where the input were not aligned with guidance. Following revision by SESW, we have then re-reviewed the changes to the inputs.

We have not reviewed the mechanics of the models themselves as these are Ofwat's industry-wide models. However, we have reviewed the outputs of the models – in terms of revenue and RCV adjustments over PR24 – to ensure that that these are consistent with expectations given our understanding of the inputs and the intention of the reconciliation.

Overall, following our review and revision, we are satisfied that the inputs to these models are consistent with Ofwat's guidance.

## **5. Summary - Our Opinion on Notional and Actual Financeability**


In our opinion, the actual financial model developed by SESW/CEPA demonstrates the financeability of SESW's business plan over PR24 on an actual basis. The modelling shows that SESW achieves a marginal Baa1 rating from Moody's on average over PR24 in the base case, albeit with a strong Baa2 rating in 3 of the 5 years. Overall, SESW demonstrates a strong investment grade credit rating on an actual basis.

The achievement of a Baa1 rating depends on SESW totex spend in line with allowances and a stable macro-environment, with poor cost or ODI performance or adverse changes in interest rates or inflation leading to a Baa2 rating and more extreme scenarios showing further downgrades. In such scenarios, we would expect SESW to draw on liquidity facilities, cash-lock up provisions and ultimately further shareholder equity, to restore financial viability.

The achievement of a Baa1 rating is also predicated on additional equity support over the remainder of AMP7 and AMP8 of £57m.

Ofwat's notional model as populated by SESW/CEPA and our calculation of the theoretical AICR also indicate that SESW is financeable on a notional basis and achieves a notional rating of at least Baa1 (Moody's) and a- (S&P) based on Ofwat's own notional model and metrics.

Yours sincerely



**James Grayburn**  
**Director**

## Appendix A. SESW company specific scenario results

<b>SESW Scenario</b>	<b>Gearing (Moody's)</b>	<b>AICR (Moody's)</b>	<b>FFO/debt (S&amp;P)</b>	<b>Implied Rating</b>
CS1 – Cyberattack (4% of Y3 turnover lost in Y5)	70.9%	1.47	10.3%	Baa2 (Moody's), a- (S&P FFO/debt)
CS2 – Water quality failure (£50/customer for 75,000 customers+ £1m)	70.9%	1.46	10.3%	Baa2 (Moody's), a- (S&P FFO/debt)
CS3 - Loss of high quality staff (£1.02m additional opex)	70.8%	1.50	10.5%	Baa1 (Moody's), a- (S&P FFO/debt)
CS4 - Totex underperformance- (10% in Y3, 5% in Y4 and Y5)	72.5%	1.38	9.7%	Baa2 (Moody's), a- (S&P FFO/debt)
CS4a - Totex underperformance- (10% in Y5)	71.1%	1.45	10.2%	Baa2 (Moody's), a- (S&P FFO/debt)
CS5 - Bad debt increase (60%, 40%, 20% in Y3,4,5)	72.2%	1.32	9.4%	Baa2 (Moody's), a-/bbb (S&P FFO/debt)
CS5a – Bad debt increase (20% in Y5)	70.8%	1.48	10.4%	Baa2 (Moody's), a- (S&P FFO/debt)

CS6 – Not achieving OE 1% target through AMP8	72.1%	1.41	9.9%	Baa2 (Moody's), a- (S&P FFO/debt)
CS7 - Additional climate related costs (2.5% of £207.3m)	71.4%	1.51	10.5%	Baa2 (Moody's), a- (S&P FFO/debt)
CS8 - Additional pension deficit payment	70.8%	1.49	10.4%	Baa2 (Moody's), a- (S&P FFO/debt)
CS9 - Unsuccessful small company premium	71.1%	1.47	10.3%	Baa2 (Moody's), a- (S&P FFO/debt)
CS10 - Significant inflation increases (2% increase in CPIH and RPI from Y4 onward)	70.6%	1.48	10.0%	Baa2 (Moody's), a- (S&P FFO/debt)
CS11 – Combination of CS1, CS4 and CS10	72.5%	1.30	8.9%	Baa2 (Moody's), bbb (S&P FFO/debt)

*Source: NERA analysis of SESW actual PR24 financial model*

