

A large circular graphic composed of various white line-art icons on a teal background. The icons include a person with a headset, a cloud with circuit lines, a "net zero" label with a leaf, a checkmark in a circle, a target, a microscope, a person at a presentation board, a hand holding a water drop, a globe with a thermometer, a group of people with an upward arrow, a leaf, a person silhouette, a scale, and a glass of water. The central text is overlaid on a white circle within this graphic.

**APPENDIX  
SES063  
PRICE CONTROL  
DELIVERABLES  
AND ADDITIONAL  
REPORTING  
METRICS**

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# APPENDIX SES063: PCDs AND ADDITIONAL REPORTING METRICS

In this appendix we set out our views and proposals for three Price Control Deliverables (PCDs) and six additional reporting metrics that we will monitor and report on during the PR24 period, which support the delivery of our Company purpose, customer priorities and outcomes.

## A. Introduction

1. This appendix supplements what we have described in Chapter 6 of our PR24 Business Plan and sets out detail on the three PCDs and six additional reporting metrics that we will monitor and report on over the PR24 period.
2. As discussed below, the three PCDs have been identified by applying Ofwat's IN 23/05 guidance.<sup>1</sup> We propose to develop the full text and financial parameters of our required PCDs in due course, following Ofwat feedback on our enhancement claims and associated customer protection proposals, and in the light of any further policy guidance and relevant decisions including on ODI rates and cost sharing rates.
3. We will engage with Ofwat to develop our proposed PCDs ahead of the draft determinations for PR24.
4. The rest of this Appendix is structured as follows:
  - Section B – provides our PCD proposals for customer protections in relation to our enhancement claims.
  - Section C – sets out our proposals for six additional metrics that we will monitor and report on over PR24.

## B. Price Control Deliverables

5. We recognise the importance of giving customers confidence that we will deliver the enhancement investment being funded through the price control, and the need for incentives to protect against under-delivery, including non-delivery, partial delivery, or late delivery. We have five enhancement claims, each of which comprises several separate but related interventions. In line with Ofwat's methodology we have assessed separately the requirement for, and nature of, customer protections for each programme/ scheme within each enhancement claim. Where appropriate, we have grouped wholesale programmes/schemes within enhancement claims to align with the PCD groupings (water) specified by Ofwat in Appendix 3 of IN 23/05.
6. For each enhancement grouping, we have considered a number of alternatives for customer protection.
  - First, where there is a direct linkage between an enhancement and a performance commitment (PC), we have considered whether the associated Outcome Delivery Incentive (ODI) would be of sufficient strength to provide an appropriate level of customer protection. Specifically, we have considered the likelihood of failing to meet the PCL in the case of under-delivery and the size of the ODI penalties we would incur

<sup>1</sup> Ofwat (July 2023): 'Information notice – IN23/05 Further guidance on price control deliverables for PR24.'



in that case, taking account of the delta between forecast performance from base expenditure and from enhancement expenditure.

- Second, we have considered whether customers will be protected through the potential for regulatory enforcement action and/or legal sanctions in the event of under-delivery. Specifically, we have considered the extent and nature of reporting and assurance that we will need to give to our regulators on delivery of the enhancement interventions, and the regulatory/ legal oversight and sanctions that may be applied in the event of failure.
  - Third, where the enhancement investment is material, and we do not consider that ODIs and/or regulatory/legal sanctions would provide sufficient protection for our customers, we have proposed a PCD to protect customers against under-delivery. In line with Ofwat’s guidance we have considered an enhancement investment (or a PCD grouping within an overall enhancement claim) to be material if it exceeds 1% of AMP8 water network plus TOTEX (£375.8m) for wholesale enhancements, i.e., £3.76m, or 4% of AMP8 residential retail TOTEX (£37.1m) for retail enhancements<sup>2</sup>, i.e., £1.48m.
7. We have considered whether tailored penalties are required for the different forms of under-delivery (i.e., non, partial, or late delivery). In all cases we have had regard to the impact of TOTEX cost sharing, taking the 60% cost sharing rate as our guide, in line with Ofwat’s guidance.
  8. We note Ofwat’s guidance<sup>3</sup> that, in general, it does not expect ODI payments to be netted off from PCD payments (i.e., companies should be worse off from under-delivery), but that companies can submit evidence in business plans where they think an alternative would be appropriate. We also note that Ofwat is planning to give further consideration to this policy issue in its determinations. In our view, companies should not be exposed to the risk of aggregate payments greater than the customer funding for the enhancement investment given that any delta between base and enhancement performance would be contingent on that funding, and we have designed our customer protections in this way (see for example our proposals on leakage and smart metering below).
  9. The table below shows how each of our proposed enhancement interventions aligns to Ofwat’s PCD groupings. Please note these figures are prior to the application of ongoing efficiency and so are conservative in their application of Ofwat’s materiality test. Chapter 7 of our PR24 Business Plan provides a similar table setting out the breakdown of expenditure after the impact of ongoing efficiency improvements.

**Table 1: Overview of enhancement claims – (£m 2022/23 price base)**

Priority area	Enhancement Claim	Grouping	TOTEX (£m) (AMP8)
Provide you with high quality water from sustainable sources	EC1: Drinking water quality enhancement	W14 – water quality: raw water quality deterioration	5.2
		W15 – water quality: lead reduction	3.8
		<b>Total – EC1</b>	<b>9.0</b>

<sup>2</sup> In the absence of guidance on the materiality threshold for retail enhancements we have chosen the same materiality threshold as for residential retail cost adjustment claims.

<sup>3</sup> IN 23/05, p.9



Priority area	Enhancement Claim	Grouping	TOTEX (£m) (AMP8)
Deliver a resilient water supply and minimise wastage	EC2: Enhancing the resilience of our water treatment works and processes	W9 – SS/DD balance: demand side improvements (excl. leakage and metering) <sup>4</sup>	1.1
		W16 – water resilience	4.2
		W17 – Security: SEMD and Cyber	1.7
	<b>Total – EC2</b>		<b>7.0</b>
	EC3: Additional leakage reduction and enhanced network resilience	W10 – SS/DD balance: leakage improvements	10.5
		<b>Total – EC3</b>	
Help you reduce your water footprint and charge a fair, affordable price for what you use	EC4: Transformational customer engagement and enhanced data security	W12 – metering	22.3
		W17 – Security: SEMD and Cyber	0.4
		W19 - other	0.2
		Retail	1.7
		<b>Total – EC4</b>	
Improve the environment and have a positive impact on the local area	EC5: Environmental and biodiversity improvement enhancements	W1- WINEP biodiversity and conservation	0.3
		W2 – WINEP eels/fish screens/passes	2.0
		W3 – WINEP invasive non-native species	0.2
		W4 – WINEP drinking water protected areas	0.6
		W5 – WINEP water framework directive	1.0
		W7 – WINEP 25-year environment plan	0.2
		W8 – WINEP investigations	0.6
		W19 - other	0.1
<b>Total – EC5</b>		<b>5.0</b>	

Source: SES Water

10. In the sections below we present the same data aggregated against each of Ofwat’s PCD groupings. Based on this analysis, we are proposing PCDs related to our smart meter programme, enhanced lead replacement programme, and our enhanced water treatment and network resilience programmes.

11. For the majority of enhancement investments, we have concluded that a PCD is not required because we consider ODIs will offer sufficient customer protection and/or the forecast enhancement spend is not material and/or other regulatory protections (e.g., via DWI/EA oversight and enforcement) are in place.

<sup>4</sup> Note that £500k of the £1.1m of costs have been incorrectly allocated to W9. These costs relate to customer side leakage enhancement expenditure and will be reallocated to W10 post submission.



## Wholesale

12. The following subsections set out our assessment of each wholesale TOTEX cost grouping and whether we consider it qualifies for a PCD.

### EA/NRW environmental programme (WINEP/NEP)

13. The table below summarises our review of customer protections for each enhancement claim within the WINEP/NEP grouping. No enhancement claim in this group reaches the materiality threshold while additional protection is provided by performance in this area being covered by EA enforcement action for under-delivery. We consider this proposal to be in line with Ofwat’s recent IN 23/05 guidance, but we would be happy to develop PCDs for these schemes subsequently if required by Ofwat.

**Table 1: Customer protections for each enhancement claim within Ofwat’s WINEP/NEP PCD grouping.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
W1- WINEP biodiversity and conservation		
Not Material	£0.3m	<p><b>No PCD – protection via ODI.</b></p> <p>Comprises all enhancement expenditure to facilitate biodiversity net gain PC. Whilst no ODI rate is currently proposed (awaiting guidance from Ofwat as part of DD), we expect this to adequately protect customers.</p> <p>In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).</p>
W2 – WINEP eels/fish screens/passes		
Not Material	£2.0m	<p><b>No PCD – protection via EA oversight.</b></p> <p>This investment is covered by EA WINEP requirements, and we are subject to the risk of EA enforcement action for under-delivery.</p> <p>In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).</p>
W3 – WINEP invasive non-native species		
Not Material	£0.2m	<p><b>No PCD – protection via EA oversight.</b></p> <p>This investment is covered by EA WINEP requirements, and we are subject to the risk of EA enforcement action for under-delivery.</p> <p>In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).</p>
W4 – WINEP drinking water protected areas		
Not Material	£0.6m	<p><b>No PCD – protection via EA oversight.</b></p> <p>This investment is covered by EA WINEP requirements, and we are subject to the risk of EA enforcement action for under-delivery.</p>



		In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).
W5 – WINEP water framework directive		
<b>Not Material</b>	<b>£1.0m</b>	<b>No PCD – protection via EA oversight.</b> This investment is covered by EA WINEP requirements, and we are subject to the risk of EA enforcement action for under-delivery. In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).
W6 – WINEP TE flow monitoring		
<b>n/a</b>	<b>£0.0m</b>	<b>n/a</b>
W7 – WINEP 25-year environment plan		
<b>Not Material</b>	<b>£0.2m</b>	<b>No PCD – protection via EA oversight.</b> This investment is covered by EA WINEP requirements, and we are subject to the risk of EA enforcement action for under-delivery. In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).
W8 – WINEP investigations		
<b>Not Material</b>	<b>£0.6m</b>	<b>No PCD – protection via EA oversight.</b> This investment is covered by EA WINEP requirements, and we are subject to the risk of EA enforcement action for under-delivery. In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).

Source: SES Water analysis

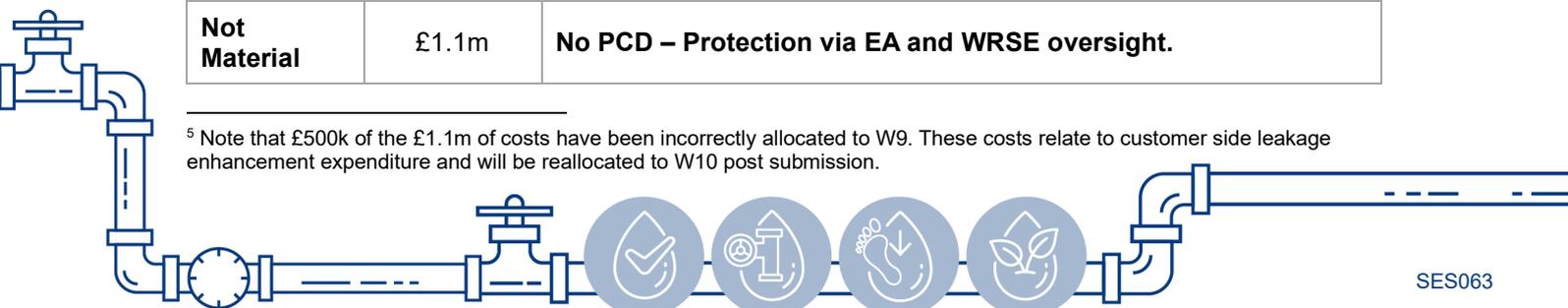
### Supply-demand balance

14. The table below summaries our review of customer protections for each enhancement claim within the supply-demand balance PCD grouping. In all cases, we have concluded that a PCD is not required because we consider ODIs will offer sufficient customer protection and/or the forecast enhancement spend is not material.

**Table 2: Customer protections for each enhancement claim within Ofwat’s Supply-demand balance PCD grouping.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
W9 – SS/DD balance: demand side improvements (excl. leakage and metering) <sup>5</sup>		
<b>Not Material</b>	<b>£1.1m</b>	<b>No PCD – Protection via EA and WRSE oversight.</b>

<sup>5</sup> Note that £500k of the £1.1m of costs have been incorrectly allocated to W9. These costs relate to customer side leakage enhancement expenditure and will be reallocated to W10 post submission.



		<p>This enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).</p> <p>The cost relates to our contribution to planning work to be undertaken as part of the WRSE process in line with EA, WRSE and government requirements and guidance and in alignment with other water companies the region.</p> <p>The need to meet EA and WRSE guidance and work in collaboration with other water companies provides a strong incentive to undertake the work without a PCD.</p>																																	
W10 – SS/DD balance: leakage improvements																																			
<b>Material</b>	£10.5m	<p><b>No PCD – protection via ODI.</b></p> <p>This expenditure relates to interventions (other than that delivered via base) to drive leakage levels in our network further downward. Failure to invest will result in no further reductions in leakage beyond those we forecast to achieve from base expenditure during the AMP8 period. This will trigger significant annual and cumulative leakage ODI penalties.</p> <p>Taking an ODI rate of +/- £0.365 for deviations from the expected PCL, we estimate failing to deliver any enhancements for leakage would result in a cumulative financial penalty of £10.16 million over the AMP, broadly equivalent to the amount of the enhancement investment<sup>6</sup> as set out in the tables below.</p> <table border="1"> <thead> <tr> <th>Leakage</th> <th></th> <th>25/26</th> <th>26/27</th> <th>27/28</th> <th>28/29</th> <th>29/30</th> </tr> </thead> <tbody> <tr> <td>Expected Ofwat PCL</td> <td rowspan="3">% reduction from 19/20 baseline</td> <td>15.48</td> <td>18.25</td> <td>21.03</td> <td>23.81</td> <td>26.59</td> </tr> <tr> <td>SES PCL</td> <td>15.48</td> <td>18.25</td> <td>21.03</td> <td>23.81</td> <td>26.59</td> </tr> <tr> <td>SES perf. from base only</td> <td>12.83</td> <td>13.22</td> <td>13.61</td> <td>14.00</td> <td>14.38</td> </tr> <tr> <td><b>Penalty</b></td> <td><b>£m</b></td> <td><b>-0.73</b></td> <td><b>-1.38</b></td> <td><b>-2.03</b></td> <td><b>-2.69</b></td> <td><b>-3.34</b></td> </tr> </tbody> </table> <p>Source: SES analysis</p>	Leakage		25/26	26/27	27/28	28/29	29/30	Expected Ofwat PCL	% reduction from 19/20 baseline	15.48	18.25	21.03	23.81	26.59	SES PCL	15.48	18.25	21.03	23.81	26.59	SES perf. from base only	12.83	13.22	13.61	14.00	14.38	<b>Penalty</b>	<b>£m</b>	<b>-0.73</b>	<b>-1.38</b>	<b>-2.03</b>	<b>-2.69</b>	<b>-3.34</b>
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W11 – SS/DD balance: supply side improvements																																			
n/a	£0.0m	n/a																																	

Source: SES analysis

### Metering

15. The table below summaries our review of customer protections for each enhancement claim within the metering PCD grouping. We propose a PCD for the enhanced smart metering programme. This would be based on a proportion of the fixed and variable costs elements of our smart metering programme. Further detail is provided in the table below.

<sup>6</sup> We recognise that the smart metering programme also has an impact on leakage performance in the AMP. However, the impact on the analysis presented is not material: we estimate that the benefits of smart metering would reduce potential leakage ODI penalties by around £0.8m over the AMP.



**Table 3: Customer protections for each enhancement claim within Ofwat’s metering PCD grouping.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
W12 - metering		
Material	£22.3m	<p><b>PCD proposed. Additional customer protection through ODIs.</b></p> <p>We propose to provide customer protection against the cost of the smart metering programme using a combination of a PCD and ODIs. The PCD would be based on a proportion of the fixed and variable costs elements of our smart metering programme, up to a total exposure of £18.5m over the AMP. The remaining £3.5m of protection would be provided through our exposure to directly related ODIs, where performance beyond base relies explicitly on the roll-out of smart metering. Each element is described below.</p> <p>The variable elements of the smart metering programme comprise meter roll-out and installation, network connection and comms activities, and associated back-office support costs. The total cost over the AMP of these elements is £9.4m.<sup>7</sup></p> <p>The PCD deliverables for the variable element will be the number of AMI meters expected to be installed in each year, profiled over the AMP, with an associated unit cost for each meter. Indicatively, this amounts to about £47 per meter and £3.40 per year per meter for comms. We intend to confirm the profile of deliverables and associated unit costs within the overall enhancement funding based on more detailed modelling once our strategic tendering exercise has confirmed the optimal build-up of smart metering activities and costs within the programme.</p> <p>We propose to split out the fixed central costs of the programme (i.e., AMP8 enhancement CAPEX for the master smart asset data management platform and customer interface tool and the associated AMP8 technology licensing, data storage and maintenance cost) from the variable elements. The total cost over the AMP of these elements is £12.8m.<sup>8</sup></p> <p>This part of the PCD will separately specify as deliverables the funded outputs (and associated costs) for each of the central infrastructure elements. The PCD deliverables will be profiled to the timing of scheme milestones and amount of expenditure on an annual basis over the AMP. Funding would be returned to customers for non-delivery (or pro rata for partial delivery).</p> <p>We propose that our total exposure to this PCD (whether arising from the fixed or variable part of the PCD) over the AMP should be capped at £18.5m.</p> <p>We consider this value to be appropriate as protection will already be provided via the ODIs to which the smart metering programme contributes. Under-delivery against the programme will lead us to under-perform against the PCC, Leakage, and Business Demand PCs in AMP8 and incur significant annual ODI penalties. We estimate that the cumulative additional ODI penalties would amount to around £0.8m for leakage, around £2.7m for PCC, and around £0.3 million</p>

<sup>7</sup> See Table 8 of the Smart Water Customer Experience enhancement case.

<sup>8</sup> See Table 8 of the Smart Water Customer Experience enhancement case.



for Business Demand, i.e., £3.8m in total, as set out in the tables below.

**Impact of not delivering our enhanced metering programme on leakage ODI performance**

Leakage		25/26	26/27	27/28	28/29	29/30
Expected Ofwat PCL	% reduction from 19/20 baseline	15.48	18.25	21.03	23.81	26.59
SES PCL		15.48	18.25	21.03	23.81	26.59
Perf. without smart metering		15.26	17.84	20.42	23.01	25.59
Additional Penalty	£m	-0.1	-0.1	-0.2	-0.2	-0.3

Source: SES analysis

**Impact of not delivering our enhanced metering programme on PCC ODI performance**

PCC		25/26	26/27	27/28	28/29	29/30
Expected Ofwat PCL	% reduction from 19/20 baseline	7.70	8.60	9.00	10.00	11.00
SES PCL		6.60	7.87	9.00	10.00	11.00
Perf. without smart metering		5.27	5.98	6.62	7.19	7.75
Additional Penalty	£m	-0.5	-0.5	-0.5	-0.6	-0.7

Source: SES analysis

**Impact of not delivering our enhanced metering programme on Business Demand ODI performance<sup>9</sup>**

Business Demand		25/26	26/27	27/28	28/29	29/30
Expected Ofwat PCL	% reduction from 19/20 baseline	6.00	7.00	8.00	9.00	10.00
SES PCL		4.70	3.38	3.96	4.55	5.14
Perf. without smart metering		2.90	2.03	2.33	2.60	2.84
Additional Penalty	£m	-0.3	0.0	0.0	0.0	0.0

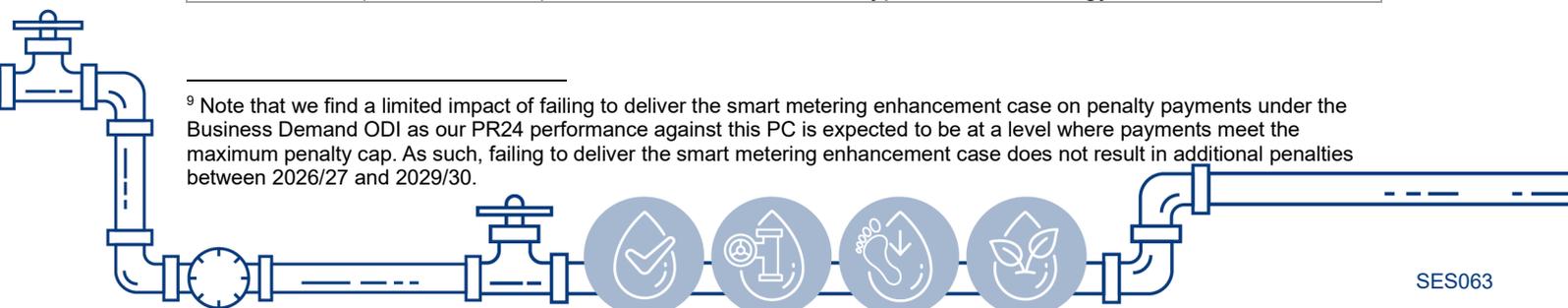
Source: SES analysis

The overall effect is that we will have a total exposure of £22.3m through the PCD and ODIs, equivalent to the total amount of the enhancement claim, subject to cost sharing.

We propose that there should be annual assurance and reporting on progress against central infrastructure milestones, number of meter installs and unit costs to Ofwat, but that the PCD is assessed and settled on the basis of performance by the end of the period. The effect will be to return up to £18.5m of the enhancement funding to customers in the event of non-delivery (and pro-rata for partial delivery), taking account of cost-sharing. We do not consider that an annual performance or timing incentive is appropriate here as there is no statutory or regulatory requirement to deliver the proposed improvements at any specific point within the AMP.

We note that Ofwat has said that it will consider whether to aggregate deliverables across meter types and technology in the determination

<sup>9</sup> Note that we find a limited impact of failing to deliver the smart metering enhancement case on penalty payments under the Business Demand ODI as our PR24 performance against this PC is expected to be at a level where payments meet the maximum penalty cap. As such, failing to deliver the smart metering enhancement case does not result in additional penalties between 2026/27 and 2029/30.



		process, depending on the extent to which these factors affect costs. <sup>10</sup>
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Source: SES analysis

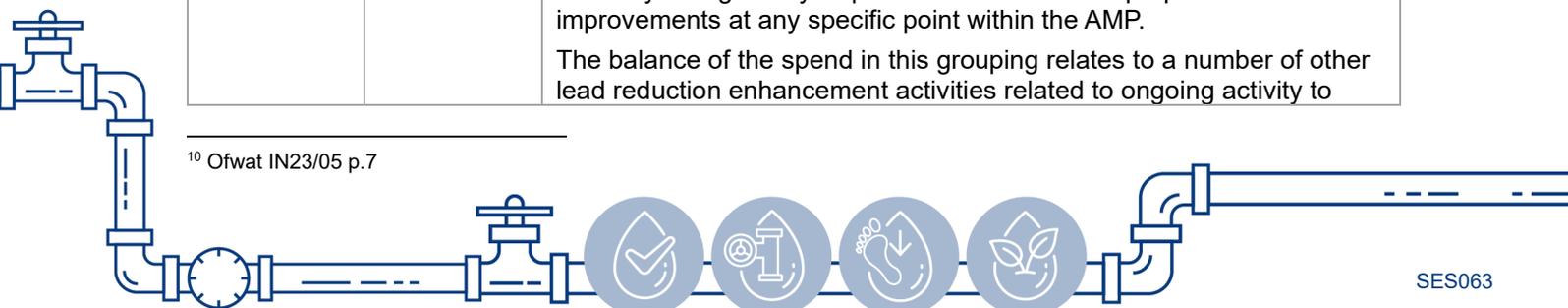
### Water Quality

16. The table below summarises our review of customer protections for each enhancement claim within the water quality PCD grouping. We propose a PCD for the schools’ lead reduction programme.

**Table 4: Customer protections for each enhancement claim within Ofwat’s Water Quality PCD grouping.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
W13 – water quality: TOC		
n/a	£0.0	n/a
W14 – water quality: raw water quality deterioration		
Material	£5.2	<p><b>No PCD – protection via DWI oversight.</b></p> <p>We received DWI letters of support for both sites in August 2023. We are now required to deliver these schemes in AMP8 subject to DWI oversight and we are subject to the risk of enforcement action by the DWI for under-delivery, so adequate customer protection exists without a PCD.</p>
W15 – water quality: lead reduction		
Material	£3.8	<p><b>PCD proposed.</b></p> <p>We propose that a PCD be implemented focused on the schools’ lead reduction programme, which is c.90% of the enhancement expenditure in this grouping (£3.4m).</p> <p>The PCD deliverables will be the number of schools expected to be covered in each year, profiled over the AMP. At this stage, we propose a unit cost rate for the PCD of £20k per school. We recognise that there is a range of potential unit costs - some will be higher, others lower – however we cannot accurately categorise schools in advance by likely unit cost and hence we do not consider that we would be incentivised by a single unit rate to tackle lower unit cost schools in preference to higher cost schools.</p> <p>We propose that there should be annual assurance and reporting on progress and unit cost to Ofwat, but that the PCD is assessed and settled on the basis of performance by the end of the period. The effect will be to return the full amount of the enhancement claim to customers in the event of non-delivery (and pro-rata for partial delivery), taking account of cost-sharing. We do not consider that an annual performance or timing incentive is appropriate here as there is no statutory or regulatory requirement to deliver the proposed improvements at any specific point within the AMP.</p> <p>The balance of the spend in this grouping relates to a number of other lead reduction enhancement activities related to ongoing activity to</p>

<sup>10</sup> Ofwat IN23/05 p.7



		remove lead on shared supplies that are only £0.4m in aggregate and we propose that it is excluded from the PCD.
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Source: SES analysis

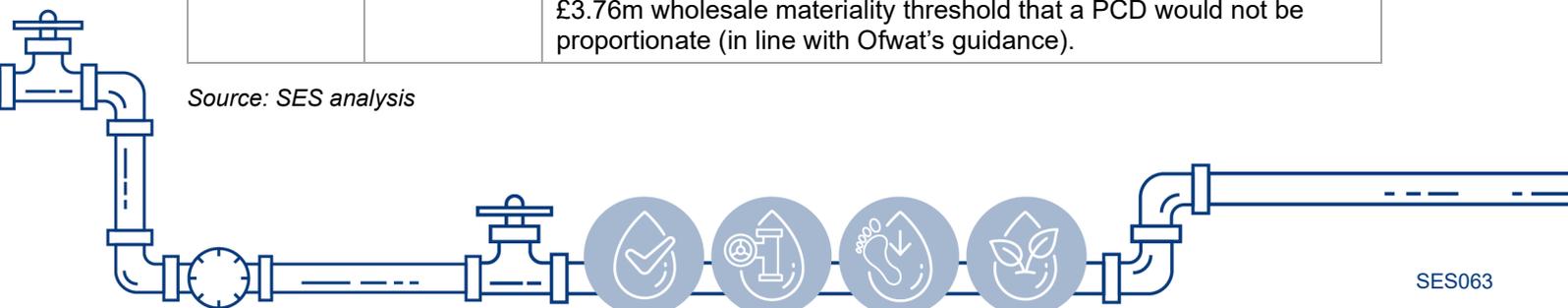
### Water Resilience and Security

17. The table below summaries our review of customer protections for each enhancement claim within the water resilience and security PCD grouping. We propose a PCD for schemes designed to improve resilience in production and supply operations.

**Table 5: Customer protections for each enhancement claim within Ofwat’s Water Resilience and Security PCD grouping.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
W16 – water resilience		
Material	£4.0	<p><b>PCD proposed.</b></p> <p>We propose that a PCD should cover the four resilience schemes to improve resilience in production and supply operations. The PCD will separately specify as deliverables the funded outputs (and associated costs) for each of the schemes.</p> <p>The PCD deliverables will be profiled to the timing of scheme milestones and amount of expenditure on an annual basis over the AMP, with annual assurance and reporting on progress, but assessed and settled on the basis of performance by the end of the period. The effect will be to return the full amount of the enhancement claim to customers in the event of non-delivery (and pro-rata for partial delivery), taking account of cost-sharing. We do not consider that an annual performance or timing incentive is appropriate here as there is no statutory or regulatory requirement to deliver the proposed resilience improvements at any specific point within the AMP.</p> <p>We considered whether customers would be adequately protected through the PCs (and associated ODIs) to which the enhancement interventions contribute (namely unplanned outage and water supply interruptions). However, we concluded that this would not be appropriate as these four schemes comprise only a small proportion of work being delivered to achieve the proposed PCLs and hence any ODI impact of under-delivery would be limited or indirect.</p>
W17 – Security: SEMD and Cyber		
Not Material	£2.0	<p><b>No PCD – protection via DWI oversight.</b></p> <p>All the scope of enhancement work in this grouping is covered by legal requirements and DWI letters of support with clear expectations from the DWI on full timely delivery during AMP8. Otherwise, we are subject to the risk of enforcement and legal action being taken. Hence adequate customer protection exists without a PCD.</p> <p>In any event, this enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).</p>

Source: SES analysis



### Greenhouse Gas Reduction and Other

18. The table below illustrates our review of customer protections for each enhancement claim within the greenhouse gas reduction and other PCD groupings. In all cases, we have concluded that a PCD is not required.

**Table 6: Customer protections for each enhancement claim within Ofwat’s Greenhouse Gas Reduction and Other PCD groupings.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
W18 – greenhouse gas reduction		
n/a	£0.0	n/a
W19 - other		
Not Material	£0.4	<p><b>No PCD – de minimis.</b></p> <p>This enhancement investment is sufficiently below the £3.76m wholesale materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance). It relates primarily to early investigation work that will be progressed on the Eden catchment before end of the AMP. It will likely evolve into multi-AMP WINEP programme by PR29. The future benefits to SES provide strong incentives to undertake the work without a PCD.</p>

Source: SES analysis

### Retail

19. The table below summaries our review of customer protections for each retail enhancement claim. In each case, we have concluded that a PCD is not required.

**Table 7: Customer protections for each retail enhancement claim.**

Materiality	AMP8 TOTEX (£m, 22/23 prices)	Customer Protection
Retail – IT data access		
Not material	£1.0	<p><b>No PCD – Protection via Ofwat licence condition</b></p> <p>This enhancement relates to work to develop IT and improve access to data for innovators, customers and other stakeholders in line with Ofwat’s call to action to water companies. This will have a range of direct customer benefits and future benefits to SES from the application of citizen science. We understand that Ofwat is developing a new licence condition that will provide new powers to ensure companies deliver on open data. Therefore, we will be subject to the risk of enforcement action being taken if we do not make the enhancement investment, and adequate customer protection exists without a PCD.</p>



		In any event, this enhancement investment is sufficiently below the £1.48m retail materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).
Retail – “water footprint” data model		
<b>Not Material</b>	£0.7	<p><b>No PCD – de minimis/ ODI protection</b></p> <p>This enhancement relates to IT work required to deliver a “water footprint” data model and representation. This is where we will combine various datasets and provide a single source of insights in relation to our societal relationship and need for water use, now and into the future. Our aim is that this can be shared, analysed and mined by customers and other stakeholders for the purposes of improving ours’ and others’ understanding, and will lead to innovation, action and change on water use.</p> <p>We expect that this investment will have benefit for C-MeX, in terms of a reputational improvement, and will help towards delivering on our commitments around PCC and business use reduction. We would therefore expect failure to deliver this enhancement to feed through into penalties under these ODIs.</p> <p>In any event, this enhancement investment is sufficiently below the £1.48m retail materiality threshold that a PCD would not be proportionate (in line with Ofwat’s guidance).</p>

Source: SES analysis

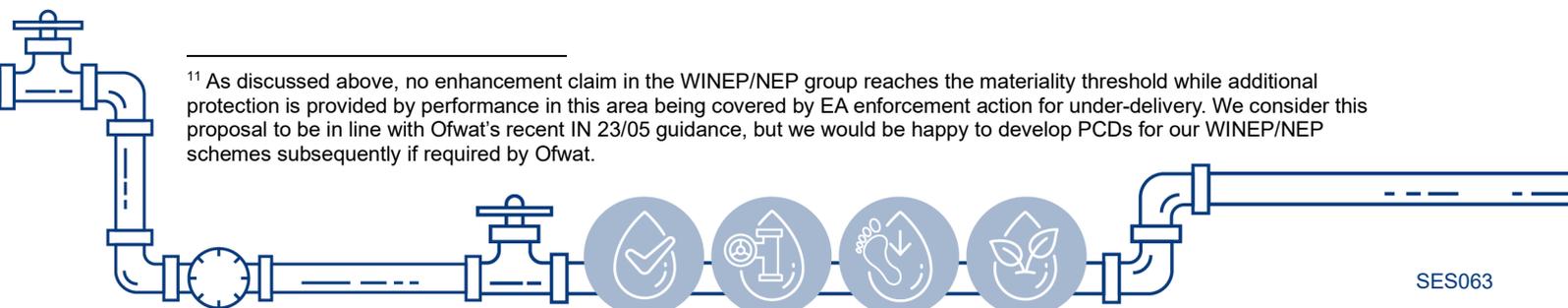
### Summary of proposed PCDs

- 20. We are committed to giving customers assurance that we will deliver on our enhancement investments, and we think that the proposals above strike the right balance between protections that exist elsewhere in the system and new PCDs.
- 21. The table below provides a summary of the key elements of each proposed PCD. We propose to develop the full text and financial parameters of any required PCDs in due course, following Ofwat feedback on our enhancement claims and associated customer protection proposals, and in the light of any further policy guidance and relevant decisions including on ODI rates and cost sharing rates.<sup>11</sup>

**Table 8: Description of Price Control Deliverables.**

Description and Deliverables	Output Measurement and Reporting	Assurance	Incentive/PCD payments
W12 - Metering			
Delivery of smart metering programme as set out in enhancement claim.	<p>Variable cost element: Number of AMI meters installed per year.</p> <p>Fixed cost element: The funded outputs and milestones for each of the schemes.</p>	In line with APR process.	<p>Variable cost element: Unit rate per AMI meter (indicative rate £47 per meter and £3.40 per year per meter for comms).</p> <p>Fixed cost element: Return of costs up to</p>

<sup>11</sup> As discussed above, no enhancement claim in the WINEP/NEP group reaches the materiality threshold while additional protection is provided by performance in this area being covered by EA enforcement action for under-delivery. We consider this proposal to be in line with Ofwat’s recent IN 23/05 guidance, but we would be happy to develop PCDs for our WINEP/NEP schemes subsequently if required by Ofwat.



	Reported annually to Ofwat.		full amount of fixed costs. Subject to capped PCD exposure across fixed and variable elements: £18.5m End of AMP assessment and settlement; no timing incentives.
<b>W15 – lead reduction</b>			
Delivery of school lead reduction programme as set out in enhancement claim.	Number of schools per year.  Reported annually to Ofwat	In line with APR process.	Unit rate per school (Indicative rate £20k per school). End of AMP assessment and settlement; no timing incentives.
<b>W16 – water resilience</b>			
Delivery of four resilience schemes to improve resilience in production and supply operations as set out in enhancement claim.	The funded outputs and milestones for each of the schemes. Reported annually to Ofwat	In line with APR process.	Return of costs up to full amount of enhancement claim. End of AMP assessment and settlement; no timing incentives.

Source: SES Water

### C. Additional metrics

22. We propose to monitor and report on an additional six metrics over the PR24 period. These metrics go beyond Ofwat’s performance framework and will help us track our performance on additional aspects that impact our customers and the environment. As described in Chapter 6 of our PR24 Business Plan, all six metrics are grouped within two priority areas:

- Reduce your water footprint and charge a fair, affordable price for what you use.
- Improve the environment and have a positive impact on our local area.

23. We discuss each area in turn below.

#### Reduce your water footprint and charge a fair, affordable price for what you use.

24. Our position as a small water company with our head office in the heart of our supply area means that we have a deep understanding of and close links with the communities that we serve. As we prepare for AMP8, we are committed to understanding and implementing a wider set of metrics that will enable us to better capture and report on our social impact. We propose three metrics within this priority area:

- (i) Education
- (ii) Customer Trust



**(iii) Number of people in water poverty**

- 25. We propose a new Education metric that will enable us to measure the number of young people who we engage with through our education and schools outreach programme to talk about the importance of using water wisely which we outline in detail in Chapter 10 of our PR24 Business Plan. We aim to double the number of students that we reach by 2030.
- 26. A core part of our ambition for PR24 is to transform our relationship with our customers and stakeholders, so that we build trust and empower them to take control of their water usage and deliver a high-quality service that is valued. In order to capture our performance in this area, we are proposing a new metric to specifically capture customer trust.
- 27. As part of long-term ambition to eliminate water poverty, we will also introduce a new metric that will enable us to measure how many of our customers are in water poverty and monitor our progress. We currently provide just over 20,000 customers with a 50% bill reduction through our Water Support tariff or reductions through our capped tariff Water Sure. This will increase to 25,000 by 2025 and our ambition for 2030 is to maintain this number while working to better target the support we provide. We will develop an indicative performance target against this metric following the submission of this PR24 Business Plan.
- 28. An outline of our indicative performance targets against our education and customer trust metrics is outlined in the table below.

**Table 9: Indicative performance targets against our proposed Education and Customer Trust metrics**

Metric	PR24				
	2025/26	2026/27	2027/28	2028/29	2029/30
Education metric = the number of students who have participated in our education programme	4,000	5,500	6,500	7,250	8,000
Trust metric = the % of customers who agree or strongly agree with the statement 'SES Water is a company I trust'	74%	76%	78%	80%	82%

Source: SES Water analysis

**Improve the environment and have a positive impact on our local area.**

- 29. The environment is at the heart of our service and improving it is central to our purpose. Our customers expect us to protect it and take steps to improve it where we can. We have a strong environmental record, and we know that doing more to enhance our local environment will help us build trust with our customers and stakeholders. This is essential as so much of what we need to deliver over the next five years and beyond is dependent on partnerships and action by others.
- 30. We propose three metrics within this priority area:
  - Operational carbon emissions reduction
  - Embedded carbon emissions reduction



- Employability and skills

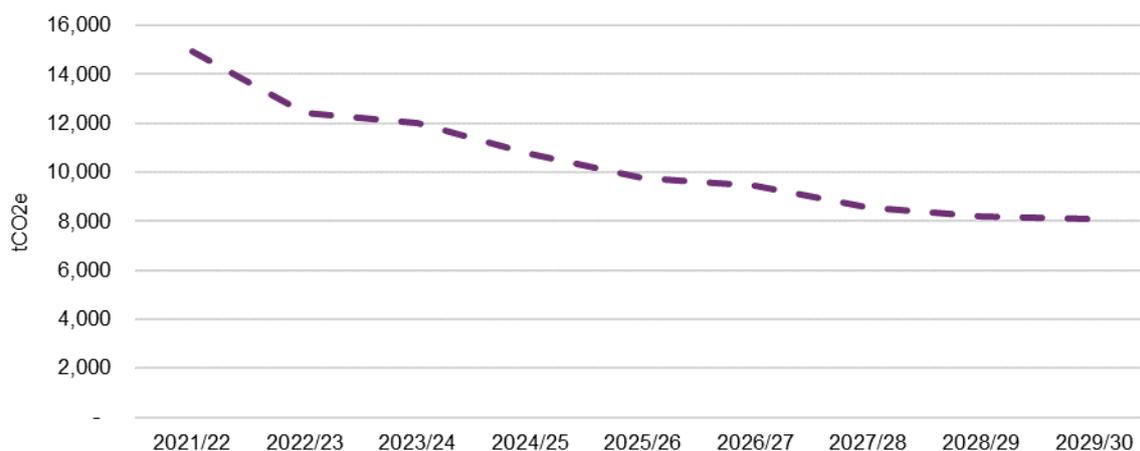
- We propose a new metric to capture our gross operational carbon emissions to complement the Operational Greenhouse Gas Emissions (GHG) PC that Ofwat has put forward for PR24.
- The PC developed by Ofwat is normalised to distribution input and therefore fails to capture the emissions which we will save through measures to reduce water consumption and leakage over time. In contrast, our proposed metric captures the impact of measures taken to reduce consumption and leakage over time.
- Our proposed metric differs in how emissions are measured in two other ways:
  - Our proposed metric is market-based rather than location-based. Market- and location-based calculations refer to Scope 2 emissions, where location-based calculations are based on the emissions intensity of the local grid. Conversely, market-based emissions are calculated considering the company’s chosen energy suppliers, and therefore calculations are adjusted for the procurement of greener/renewable energy.
  - Emissions factors are allowed to vary over time within our metric definitions. This means that the impact of the electricity system decarbonising over time is accounted for.
- An illustration of how we expect emissions to fall over time is shown in the table and figure below.

**Table 10: Indicative performance targets against our proposed Operational GHG Emissions metric**

Metric	PR24				
	2025/26	2026/27	2027/28	2028/29	2029/30
Operational GHG Emissions (tCO <sub>2</sub> e)	9,742	9,430	8,557	8,187	8,072

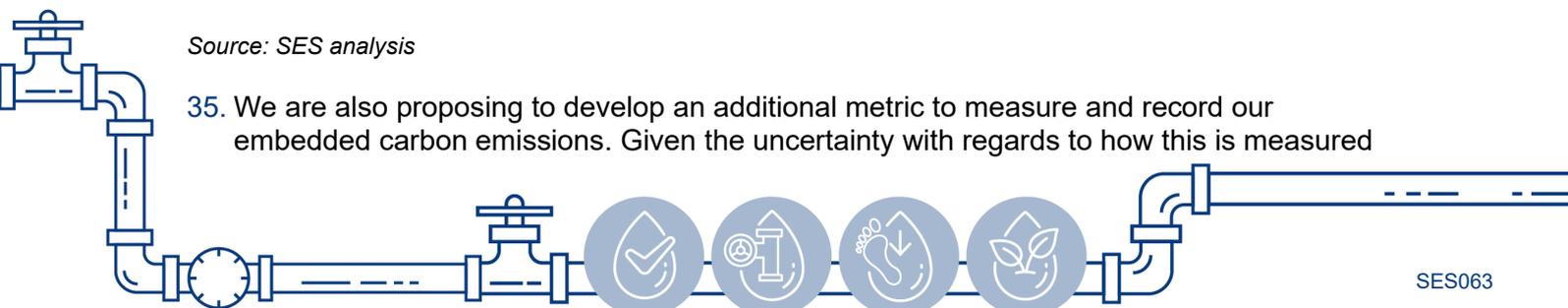
Source: SES Water analysis

**Figure 1: Emissions under our proposed PR24 Metric**



Source: SES analysis

- We are also proposing to develop an additional metric to measure and record our embedded carbon emissions. Given the uncertainty with regards to how this is measured



we are not putting forward a bespoke PC in this area. That said, we are committed to reducing our embedded GHG emissions as part of our activities and have proposed an additional metric to track our performance during the AMP, based on the same principles as our operational GHG emissions metric. We will continue to develop our calculations of embedded emissions following the submission of our PR24 Business Plan.

36. Finally, we are also proposing to develop a metric on employability and career aspirations which will measure the impact that we have as part of our employee development and schools' outreach programme within our supply area. We expect that this metric will capture % of participants from our outreach programme who agree that they are more motivated to build their career. Further detail will be developed following the submission of this PR24 Business Plan.

