

Our Ref: [REDACTED]

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Dear Michael

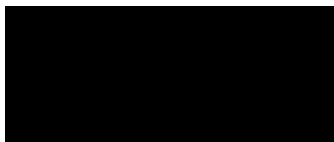
Consultation on regulatory reporting for the 2020-21 reporting year

Thank you for providing us with this opportunity to respond to the above consultation. As a Company, we are strongly supportive of any changes to the reporting requirements of the Annual Performance Report (APR) which contribute to the consistency and transparency of regulatory accounting information across the Sector to allow all stakeholders to understand and challenge companies.

As you will note from our response to this consultation, we continue to believe there is a fine balance to be achieved between overloading the reader with data and providing the optimal level of information to allowed informed decisions to be taken by all stakeholders.

We appreciate the time and effort by Ofwat to consider the above factors, and the comprehensive consultation that was issued. As always, we are happy to discuss further our responses as noted in this letter.

Your sincerely



Paul Kerr
Group Chief Financial Officer

Appendix I – Responses to consultation questions

Q1 What are your views on the proposed changes to the APR tables in Appendix 1?

Response: Overall we agree with the majority of proposed changes to the APR table in Appendix 1 of the consultation document. As always, to maintain an optimal level of data for all stakeholders, our preference would be to limit the annual growth of the APR tables. If new data is required, we would recommend adding more lines in existing tables rather than supplementing with new tables. Refer to the attached template in Appendix 2 for specific comments on certain proposed changes as well as suggestions to help improve data quality and company comparability in the competition of these APR tables.

Q2 Do you think that the tables allow a comparison of performance to the PR19 business plan tables? Are there areas where this could be improved? Are there areas where we should consider deviating from the business plan formats?

Response: We consider that the tables do allow a comparison on performance and are aligned to the PR19 business plans – we would not recommend any areas of deviation from the business plan formats, and would not advocate an expansion of the current set of regulatory tables, with the exception of potentially further granularity reporting of in-year performance commitment performance that may be useful with respect to current Table 3S.

Q3 Do you think that the transactions between the price control units, in particular for the sludge liquors which Network+ treats on behalf of Bioresources, are sufficiently transparent? If not, please give examples as to how this could be improved.

Response: Given our status as a water-only company, we do not have a specific view on the above wastewater matter, other than to note that the option for narrative to explain more clearly any price control transactions (including recharges) should always be a recommended option to improve transparency.

Q4 Are there any practical presentational issues we should consider e.g. do any tables have too many lines to publish easily? Do you have any preference for landscape versus portrait format?

Response: In terms of practical presentational issues, we continue to consider that Table 1F on financial flows continues to be a difficult table to navigate for the external reader - any simplification of this table, with enhanced explanations and definitions in the RAG's of key line items for both the annual and cumulative basis, would be beneficial. We would prefer to remain with portrait format as this is more in line with our APR reporting and easier for the reader to navigate.

Q5 We are considering moving the 15 July deadline for the APR publication earlier in July so that we can more easily accommodate the in-period determinations. Would it be practical to implement such a change?

Response: We do not consider it to be practical to move the 15 July deadline for the APR publication earlier in July - being one of the smaller water only companies, there is already substantial resource and time pressure to deliver the APR by the current 15 July deadline. We therefore strongly object to any acceleration of this reporting deadline.

Q6 Do you agree that we should embed the ODI performance model within the annual performance reporting tables?

Response: We agree with embedding the ODI performance model within the annual performance reporting tables - will be efficient and save the time of potentially requiring the population of a separate model.

Q7 Do you agree that companies should report performance against the PR19 asset health long list on table 3E? If so, should information be restricted to water companies and regulators or made publicly available?

Response: We agree that companies should report performance against the PR19 asset health long list as per Table 3E. We do not object to such information being made public.

Q8 Developer services are open to competition. Most site-specific services are contestable and can be provided by an undertaker (incumbent company or NAV), self-lay provider (SLP) or (primarily in the case of sewers) developers. We are introducing a new table 2N for developer services to measure the level of third-party activity in areas served by incumbent companies. This should enable us to measure that activity in a way that ensures the information is insightful and consistent. It will provide an insight on how competition in developer services is evolving over time. We have also added granularity for our cost information for growth-related expenditure in tables 4L and 4M. We propose a re-definition of our cost lines to capture the main elements of growth activities, and to capture specific on-site and off-site costs separately. We welcome comments and views on our proposed approach.

Response: We do not object to the introduction of new tables for developer services with respect to measurement of the level of third-party activity in areas served by incumbent companies. In addition, we support the added granularity for cost information for growth related expenditure in Table 4L and 4M. Overall we are supportive of further transparency on costs and activity in relation to developer services, especially in the light of wider concerns about customer service in this area.

Q9 We currently calculate the reconciliation in table 2K using infrastructure charges before any efficiency discounts. We are aware of some views that this should be changed to use infrastructure charges after discounts. What are your views on this?

Response: We do not have a strong view on the calculation being performed before or after the efficiency discount calculation, if complemented by narrative to explain the calculation for the reader.

Q10 Is there scope to rationalise the number of areas where we ask for specific assurance?

Response: We fully support Ofwat's continued drive for assurance – from the Board level downwards – on the accuracy of data and information being submitted as part of the PAR process. There are several means in which Boards – through the companies' licence requirements – provide assurance on the data being provided, which is supplemented on many occasions by external data assurance providers' reports. Therefore, while we do not believe there is significant scope at present to rationalise the number of areas where specific assurance is being requested, we recommend that Ofwat consider the ability to report such assurance activities succinctly within the APR. The proposed Board assurance statement may be the mechanism for such reporting, but any overlap with other forms of regulatory assurance reporting (such as the ring-fencing certificate or risk and compliance statement) needs careful consideration.

Q11 We currently collect information on property and customer numbers, including voids etc, in various places in the APR. We could move all of this information into a single table – what are your views on this? Are there any other useful metrics for property and customer numbers which we should specify?

Response: We agree that collation of all such customer non-financial data into a single table is appropriate and efficient. We would not propose any further metrics be added into this table.

Q12 Table 4U line 23: Total volume of network storage. We are aware that companies have had difficulties completing this item and are concerned that this may mean there could be inconsistencies across the industry. How might this definition be improved to avoid ambiguity and improve consistency of reporting?

Response: Given our status as a water-only company, we do not have a specific view on the above wastewater matter.

Q13 Strategic water resources – we have included more granular information on bulk supplies revenues and volumes in our proposed table 4A in order to promote trading activity. Currently, for cost information, we have a single line for third party costs, of which bulk supplies is a constituent. We asked companies to forecast individual costs for new bulk supplies in their PR19 business plans. Is it practical to disclose granular cost information for bulk supplies?

Response: Given the limited activity for our Company in this area, the low level of transactions would allow such bulk supply cost information to be provided.

Q14 Social tariffs – we have proposed additional information to table 2F. Is this sufficient to provide a view of company activities in this area? What additional information should we consider adding to this table?

Response: We agree with the proposed additional information to Table 2F and would not consider any additional further information in this area.

Q15 We currently have a source type for direct effluent reuse. This is where treated effluent is diverted to network plus price control activities (either via a raw water transport asset, raw water storage asset or to a water treatment works for further treatment and treated water distribution). We define direct reuse as when the effluent does not return to the environment or to the water resources price control activities (abstraction asset before entering the water treatment works). Although we consider indirect effluent reuse as being where an effluent discharge is diverted to a location (environment or water company water resource asset) purely for the purposes of abstraction for treatment and treated water distribution, we do not include this currently in the reporting of costs or sources. Where do you currently report these sources and costs? If we were to introduce an indirect reuse source category do you agree with our definition above?

Response: Given our status as a water-only company, we do not have a specific view on the above wastewater matter.

Q16 In section 8 we have included new data requirements for Bioresources. Should we collect more data to support the Bioresources market?

Response: Given our status as a water-only company, we do not have a specific view on the above wastewater matter.

Q17 We are introducing a new table 9A for the reporting of issues relating to the innovation competition. This is to collect the information required for the 'PR19 Innovation funding reconciliation model' in a format that will also provide stakeholders with relevant information to monitor how the company is performing against its allocated innovation competition fund price control revenue. We propose in section 3.16 of RAG 3.12 that companies provide commentary on its innovation competition spend. Do the proposed new table, line definitions and commentary requirements capture the required information to support the reconciliation process? What additional information should we consider adding to this table?

Response: We agree that the proposed new table, definitions and commentary capture the required information to support the reconciliation process.

Q18 We propose new reporting requirements for small companies: a. Customer-focused performance summary, b. Per capita consumption (PCC), c. Leakage; and, d. Financial security. What are your views on these proposals?

Response: While we do not have any NAVs currently operating in our area, we do not object to the proposed reporting requirements for such small companies – and note that in particular financial security information for such small companies would be of benefit to stakeholders in the current economic climate.

Q19 What are your views on how we should collect the information to calculate the bilateral entry adjustment?

Response: We believe that collection of such information to calculate the bilateral entry adjustment would introduce an unnecessary level of complexity. Ofwat should consider the cost-benefit of this proposal - with potential individual companies providing the raw data to Ofwat to enable completion of Ofwat's calculations.

Q20 We highlight proposals for Greenhouse gas emission reporting in section 4 'Future developments in performance reporting'. To what extent do you agree or disagree with these proposals and why? Could companies publish annual gross and net greenhouse gas emissions (in tCO₂e) for both water and wastewater? Could this be done for both operational and embedded emissions?

Response: We agree with the proposed reporting – namely including information from water companies about Greenhouse Gas Emissions in APRs, working with the water industry to develop reporting requirements and leveraging any reporting put in place by the industry under its net zero carbon commitment work.

Water companies are subject to the Streamlined Energy and Carbon Reporting requirements which already require Greenhouse Gas Emissions to be reported in APRs in some detail. We would welcome the opportunity to collaborate with Ofwat and the rest of the water industry to further develop reporting requirements over and above those of the SECR and notes that industry collaborative forums already exist through the Water UK Energy Managers Forum and Carbon Group. Our expectation is that any formal reporting put in place by the industry under its net zero carbon commitment will, by its nature, be developed

collaboratively and will be designed to support companies to achieve the commitment. As such we see no issues with Ofwat leveraging this reporting.

Ofwat also asks whether companies could publish annual gross and net Greenhouse Gas emissions for both operational and embedded emissions.

SES Water publishes Greenhouse Gas emissions in line with the rest of the water industry using the Carbon Accounting Workbook. This ensures that the data published is consistent across the sector. The workbook allows for reporting gross and net operational Greenhouse Gas Emissions on an annual basis. The workbook does not yet capture any measurement of embedded emissions and therefore we do not believe it is possible to report embedded emissions in a consistent way across the sector in line with the purpose of the APR. We do not currently have a system for measurement and reporting of embedded emissions and is working with our supply chain to introduce this. We believe that the water sector must develop a consistent measurement and reporting methodology for embedded emissions, which builds on the data and experience of those companies leading in this area, before this can be included in the APR.

Q21 We highlight proposals for nature based solutions reporting in section 4 ‘Future developments in performance reporting’. To what extent do you agree or disagree with these proposals and why? Which type of nature based solutions do you think should be included in any reporting, and how could they be reported against? What work do you think is required to establish relevant baselines?

Response: At a strategic level we agree with the focus from Ofwat on encouraging companies to make more use of nature based solution to help protect and improve the environment. However, we consider that there requires to be further cross-sector discussion on the types of NBS that can be practically implemented across companies, the key driving input and output of such schemes and the timelines for development before any specific associated reporting or baselines can be proposed.

Q22 We highlight proposals for household bills reporting in section 4 ‘Household bills’. To what extent do you agree or disagree with these proposals and why? • What additional information on household bills do you think should be included in the APR?

Response: We are in general agreement that the proposed information to be reporting to aid in the transparency of average household bill figures would be beneficial to be published in the APR for stakeholders, albeit we would recommend that flexibility is maintained in reporting of customers in arrears to allow sufficient explanation of the stratification of such customers depending on companies’ individual circumstances.