

Our Ref: [REDACTED]

Your Ref:

21 October 2021



Ofwat  
4th Floor  
21 Bloomsbury Street  
London  
WC1B 3HF

**SES Water**  
London Road  
Redhill, Surrey,  
RH1 1LJ  
Telephone: 01737 772000  
Facsimile: 01737 766807  
Website: [www.seswater.co.uk](http://www.seswater.co.uk)  
Email: [contactus@seswater.co.uk](mailto:contactus@seswater.co.uk)

Dear Ofwat

## Response to Ofwat's Draft Determination of SES Water's in-period Outcome Delivery Incentives (ODIs) for 2020-21

Many thanks for the opportunity to respond to the above document (the "Draft Determination") issued on 5 October 2021.

We confirm our agreement of Ofwat's draft in-period ODI payments as detailed in the Draft Determination – the draft payments agree to our internal calculations and we also agree with the procedures that Ofwat has performed to arrive at the Draft Determination. This includes the interventions for SES Water noted in the document with respect to C-Mex, D-Mex, and per capita consumption ("PCC").

The only exception to the above is an update to our connected property data used to calculate the 2020-21 ODIs, which only impacts the penalty associated with supply interruptions – resulting in a penalty of £544,000, instead of £491,000, excluding C-Mex, D-Mex, and PCC. Please see the calculation in the attached appendix. This minor correction to connected properties data arose upon our re-review of such data when preparing for provision of similar information to CCW in the last 2 weeks – and we have happy to discuss or provide further information on this matter.

In addition, in our Annual Performance Report 2021 (issued in July 2021), we noted on Pg 8 & 9 of that document the extended impact of Covid-19 on our performance for 2020-21. While PCC has been appropriately addressed through Ofwat's consultations and the above Draft Determination, we would appreciate further discussion with Ofwat prior to finalisation of the 2020-21 ODI payments in the following areas of representation:

- **Customer concerns about their water (taste, odour, and discolouration contacts)** – we consider the most significant underlying reason for the exceedance of target was the increased water demand and increased population working from home during Covid-19 with customers not travelling to their normal workspace.
- **Water softening** – we fell short on our softening performance commitment due to the prolongation of extensive and essential capital investment at one of our treatment works. The health and safety precautions and a restriction applied during the pandemic, along with the disruptions to supply chains for similar reason, caused extensive delay in the completion of this work.
- **Power usage** – in 2020-21 we saw specific cost pressures with respect to electricity, with distributors looking to recoup lost revenue from the partially mothballed industrial sector from those would continue to use power through the pandemic. SES Water has a particularly

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intensive energy demand owing to the topography of the area it services and its mix of water resources.

- **Longer-term impacts of Covid-19** – longer-term impacts of the pandemic are now starting to manifest – impacting on our fuel, chemicals, labour, materials and supply chain costs and lead times, with a follow-through impact on our daily operations and investment programmes. Such wider economic impacts may impact our delivery of performance commitments and financeability throughout this AMP.

Understanding Ofwat's position and developing approach to such matters in the context of the regulatory framework would be appreciated.

Yours faithfully



Paul Kerr  
Group Chief Financial Officer

## Appendix

Water supply interruption has been recalculated based on the revised number of properties. The resulting new penalty is £53,000 higher than previously submitted. We have also resubmitted Table 4R that has been used in calculated some of our performance commitments.

<b>Common PCs - Water (Financial)</b>	<b>Unit</b>	<b>Performance level</b>	<b>Reward (+)/ Penalty (-), £m</b>	
Water quality compliance (CRI)	number	2.16	-	0.028
Water supply interruptions	hh:mm:ss	00:07:22	-	0.106
Leakage	%	1.19	-	-
Per capita consumption	%	- 3.69	-	0.616
Mains repairs	number	64.69553374	-	-
Unplanned outage	%	0.95	-	-
<b>Bespoke PCs - Water and Retail (Financial)</b>				
Customer concerns about their water	nr	0.56	-	0.040
Supporting customers in financial hardship	nr	20274	-	-
Void properties	%	4.42	-	0.135
First contact resolution	%	83.9	-	-
Greenhouse gas emissions	nr	40	-	-
River based improvement - delivery of WINEP	nr	0	-	-
Water Softening	nr	6.3	-	0.178
Risk of supply failures	%	56	-	0.058
<b>Total ODI, £m</b>			-	<b>1.160</b>
<b>In-period ODI</b>			-	<b>0.544</b>