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Dear Ofwat

Response to the discussion paper: PR24 and beyond: Long-term delivery strategies and common reference scenarios

Many thanks for the opportunity to respond to the above discussion paper issued in November 2021. In addition, we appreciate the related workshops and discussions managed by Ofwat in recent months on this subject.

Overall, we welcome the concepts outlined in this discussion paper and fully agree with Ofwat's stated aim that the upcoming price review should be used to establish "the most appropriate five-year package of interventions" to commence a company's 25-year strategic trajectory. This is aligned to our recent internal discussions around the vision, purpose and strategic goals of SES Water, and it will be a positive step-change to fully integrate 5-year price reviews into longer term strategic thinking.

We have some specific observations and recommendations to make as Ofwat finalises its thinking in this area prior to incorporation into the final PR24 methodology in late 2022.

Overall approach to Long-term delivery strategies (LTDS)

We agree with Ofwat's view that a different approach is required from the previous Strategic Direction Statements (SDSs) issued in prior price reviews and that agree that specific strategic information as detailed in a LTDS needs to be fully incorporated into the five-year business plan submissions. As noted in your discussion paper, we agree that PR24 should explicitly represent the first five-year "chunk" of the accompanying long-term delivery strategies.

The expectation that companies should demonstrate the need for "enhancement" investments with explicit reference to the LTDS also make sense.

Common requirement for long-term delivery strategies

We agree with the five parts of the LTDS proposed by Ofwat – ambition, strategy, rationale, foundations and board assurance. Again, this structure closely mirrors our approach to purpose and strategy in the last year but the explicit guidance by Ofwat is helpful here, although we do accept that these are minimal requirements. We also agree with the use of customer research to inform the long term delivery strategy.

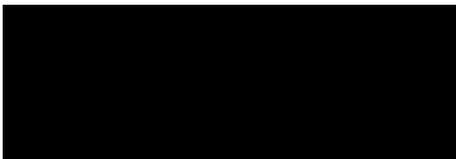
Common reference scenarios and adaptive planning

We agree with the use of common reference scenarios that focus on the four material drivers of uncertainty around long-term enhancement spending – climate change, technology, demand and environmental ambition. However, in the final methodology Ofwat should consider the following points to ensure clarity and consistency of reporting and associated evidence by companies in this area:

- Further detail on Ofwat's expectation of what would be included within a "core pathway." We understand that this is not necessarily a "central" pathway but we recommend providing more explicit information in the final methodology on what the investment within this core pathway is expected to achieve – and how it relates to the common reference scenarios provided by Ofwat.
- With reference to the use of adaptive pathways themselves, we understand that such pathways will represent different packages of enhancement investment that may be required to meet certain long-term outcomes. However, further clarity is needed on the number of adaptive pathways required to meet common reference scenarios – and in particular the extent to which the associated data tables need to be populated for alternative pathways. Again, we understand the core pathway itself may address several of the common scenarios, but best practice examples and more explicit guidance in this area would be beneficial.
- Overall, we have the impression that the documentation and analysis of the core pathway and alternative pathways – with linkage to the common reference scenarios – could quickly become complex, so explicit guidance and best practice examples from Ofwat in this regard would help to keep to the "simple and workable" principle

We are happy to engage in further discussion with you on the matters above in advance of the final methodology publication.

Yours faithfully



Group Chief Financial Officer