

Our Ref: PK/LAT/Ofwat

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Dear ██████

Consultation on regulatory reporting for the 2022-23 reporting year

Thank you for the opportunity to respond to the above consultation. Please find attached our responses to the questions you have raised and, as always, we are happy to discuss in further detail if needed.

Yours sincerely



Paul Kerr
Group Chief Financial Officer

Question 1: What are your views on the proposed changes to the APR tables listed in appendix A3 and set out in full in RAG 4?³

We have no detailed comments on the proposed changes to the APR tables listed in Appendix A3 or set out in full in RAG 4 but note the considerable additional data requirements being proposed, particularly with respect to the tables in section 4, 6 and 11. For a smaller water-only company, this continues to increase our regulatory burden with limited resources, so we request that Ofwat clarify areas being considered for managing such regulatory burden (in terms of regulatory reporting for the 2022-23 reporting year and beyond). We have raised similar requests with respect to PR24 requirements.

Question 2: Is reporting the average time of low pressure feasible for the 2022-23 APR?

Practically, we believe such reporting is feasible through our current reporting tool (WaterNet). However, our concern is that presumably Ofwat would want to agree a specific methodology with respect to such reporting to allow comparability amongst companies. Review and commentary on this methodology would be required before we could not commit to such reporting.

Question 3: What resource is required to report this information initially and on an ongoing basis?

Our view is that this would require additional time and resource for us to compile and report such information initially and on an ongoing basis given the complexities involved in compiling and analysing the data.

Question 4: Do you think that reporting both

- **the number of properties below the minimum standard of pressure; and**
- **the average time of low pressure**

provides useful information?

We consider that such information would be useful if an agreed methodology was agreed to ensure that companies could be fairly compared. In principle, it does give a way of normalising pressure reporting, but the reality is that a huge amount of work would be required to produce such information. Reporting complications would arise with details such as the source of height data, the type of hydraulic model, the specs of logging equipment etc. This represents a significant amount of work for something which is currently not proposed as a Performance Commitment in PR24.

Question 5: Do you have any comments on our approach to continue to align the GHG reporting requirements to the latest version of the Carbon Accounting Workbook?

The Carbon Accounting Workbook (CAW) is a valuable tool that simplifies the reporting of our operational carbon emissions and we support its continued use for the 2022/23 reporting year.

We also support the use of whichever version of the CAW reflects Ofwat's final decision on reporting scope and methodology.

Question 6: Do you have any comments on our reporting guidance for GHG intensity ratios?

SES Water is a water only company and so our response relates to the follow ratio (only):

Emissions per MI of treated water: [net GHG emissions (location-based) in kgCO₂e] / [(distribution input) x number of days in the year]

We acknowledge that there can be merit in a relative metric as customer demand for water continues to grow. We also consider the calculation of the ratio defined above straightforward.

We seek clarification from Ofwat on how material changes to distribution input will be treated.

1. For instance, SES Water expects its exports to increase over time (as per our draft WRMP).
2. This increases operational requirements and so (all other things being equal) emissions but does not increase our DI.
3. As we understand it, we would not be able to net off the portion of our footprint that relates to exports.
4. However, the recipient of the water would benefit from a relative drop in their intensity ratio (their emissions would not have increased but their DI would)

This does not seem equitable or to be providing a like for like comparison. We suggest that Ofwat take this into consideration for the final methodology.

Question 7: Do you have any comments on the proposal to expand the scope of mandatory reporting for operational GHG emissions?

We broadly support a move to improve and extend reporting over time, noting:

- Reporting on chemicals is already required and if the appropriate emissions factors are included in the CAW, we can provide outputs from the CAW as necessary.
- As a water-only company, we do not believe we would need to report on bioresources. We ask Ofwat for clarification on whether the extended waste reporting requirements would affect the scope of our reporting e.g., water from water treatment or even more broadly all operational waste as defined in the GHG protocol? Either would require additional data availability and collection.
- If the CAW includes the relevant emissions factors, we would be able to report on both transmission and distribution (T&D) losses and emissions associated with extraction and production of imported electricity/ heat. We suggest that these emission factors are provided and standardised.

Question 8: Do you have any comments on the introduction of our mandatory framework for the reporting of embedded emissions?

We support embedded emissions being mandatory if there is a standardised workbook and tool to calculate embedded emissions (such as the CAW). In the absence of this, we consider it should remain a voluntary requirement.

We agree that embedded emissions should be an area of focus and are starting to develop our approach. We consider our resources are best spent defining, collating and cleaning our data and identifying gaps. We understand that UKWIR is developing a common set of emissions factors for embedded carbon (for completion in 2024). In the interests of consistency, we would prefer to delay embedded emissions reporting using those factors.

Question 9: Do you have any comments on distinguishing between construction and maintenance activities for the reporting of capital project emissions?

We do not have a view on this at this stage. As per the previous comment, a standardised approach would aid us in forming a view.

Question 10: What are the key challenges that need to be considered and addressed in introducing a rating system designed to facilitate increased standardisation and continual improvement in the reporting of embedded emissions?

We understand that there is a need to monitor progress over time, and value collaboration and the opportunity to learn from others. As per our previous comments, we support the development of a standard tool that allows us to calculate embedded emissions as simply as we do operational emissions.

In the absence of this, smaller water companies are at a distinct disadvantage to larger companies, given the more limited number of man hours and budget available. Any new rating system needs to be equitable (consider the distinctive of each water company) and reflect actual progress.

Given the wide range of experience on embedded emissions in the sector, there is a risk that the system proposed could disincentivise the change it is intended to promote. Given we are in the early stages of our journey on embedded emissions, the idea that we should invest considerable resources to 'catch up' with leaders (who may be wastewater companies) to move from red to green seems at odds with our goal of providing best value to our customers.

Question 11: Are there any particular frameworks or approaches our traffic light system should consider in determining differing levels of progress and what expected progress should look like?

A traffic light system implies a company is good or bad, whereas we consider all companies to be at different points on a journey. None of the companies are starting from the same place, everyone is expected to progress further and while the quality of reporting should be consistent, the level of ambition should be proportionate to a company's impact and scale.

We therefore consider a maturity matrix a more valuable approach which would help us learn and grow, rather than mark us as failing and (given the different nature and scale of the sector's leaders), make it very difficult to progress.

For instance, Ofwat's Asset management maturity assessment (AMMA) is an approach that grades companies based on a wide range of metrics and the process to complete it was very informative.

Question 12: Do you have any comments on requesting a SWOT analysis that covers both operational and embedded emissions?

We support the use of the SWOT analysis template.

The use of two separate templates, one for operational emissions and one for embedded emissions, seem more viable than a single template.

We are at different levels of achievement in these two areas and would prefer the opportunity to communicate this clearly. It would also mean we can better track changes to our responses over time and explore the different opportunities and threats the two areas present.

Question 13: Do you have any comments on our proposed changes to disclosures in the Statement on dividend policy and explanation of dividends paid set out in RAG 3?

We have no further comments on such proposed changes to dividends reporting, which align to recent issuances from Ofwat on overall dividend reporting enhancements.

Question 14: Do you have any comments on our proposed changes to disclosures in the Statement on executive pay and performance set out in RAG 3?

We have no further comments on such proposed changes to executive pay reporting, which align to recent CEO letters from Ofwat on aligning executive pay further to performance.