A large circular graphic composed of two concentric circles. The space between the circles is filled with various colorful icons representing different aspects of water management, sustainability, and business operations. These include a person with a headset, a cloud with circuit lines, a "net zero" badge with a leaf, a water drop with a checkmark, a target, a water tap with a drop, a person at a computer, a hand holding a water drop with a downward arrow, a group of people, a leaf, a person, a water drop with a scale, and a glass of water. The central text is prominently displayed within the inner circle.

**APPENDIX
SES029
COST ADJUSTMENT
CLAIM FOR WATER
SOFTENING COST**

Contents

1. Introduction	3
A. Overview	3
B. Claim structure	3
2. The need for the adjustment	5
A. SES Water's unique circumstances	5
B. Management control	7
C. Calculation of required adjustment	9
D. Updates following our submission of our CAC	11
E. Materiality	11
3. Cost efficiency	12
A. Opex cost calculation and supporting evidence	12
B. Capex cost calculation and supporting evidence	18
C. Benchmarking and efficiency assessment	19
4. The need for this investment	22
5. Options analysis	23
6. Customer protection	24
Annex A: Supporting material	25
Annex B: Correspondence related to LB Sutton	27



1. Introduction

We made an early Cost Adjustment Claim (CAC) on 9 June 2023 for the additional efficient costs resulting from our unique statutory obligation to soften the water we provide to over 80% of our customers.

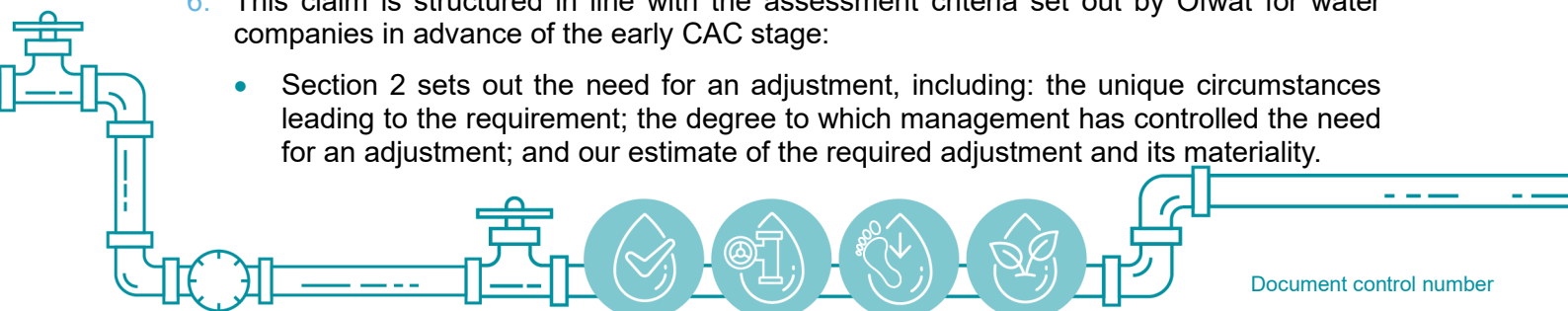
This Appendix sets out our updated proposal for this CAC and provides a brief overview of the claim, its rationale and relevant context. This Appendix also highlights any areas where our analysis has been refined since we submitted the early CAC on 9 June 2023.

A. Overview

1. We are unique amongst appointed companies in England and Wales in having statutory obligations to partially soften water from our groundwater sources. These obligations date from 1862 (the Caterham Spring Water Company Act) and 1903 (Sutton District Waterworks Act as amended in 1983).
2. Since our PR19 submission, we have sought further formal agreement to a level of softening of 80mg/l with the London Borough (LB) of Sutton. Whilst higher than the softening level set out in the original legislation, this figure was agreed by both parties as an appropriate level to target.
3. Because we are the only company to have such obligations, we are requesting that Ofwat continues to take account of this company specific requirement when it sets efficient cost allowances for PR24. Our base operating expenditure and capital investment includes additional costs required to soften water. These costs have been excluded from Ofwat's base cost modelling and so we have assessed them in full in this Appendix.
4. We estimate that SES Water will need an allowance of £29.08 million (2022/23 prices) before the application of real price effects (RPEs) and £30.72 million after the application of RPEs (equivalent to £6.14 million per annum) in addition to what is implied within Ofwat's proposed base cost models, reflecting all mitigating actions taken by our management to reduce our cost exposure.
5. We propose to continue the approach taken at PR19 for providing customer protection by retaining the existing (penalty-only) bespoke performance commitment and incentive as described in Section 6 of our PR24 Business Plan and as described in detail in Appendix SES024 ODI design calibration and Appendix SES073 Softening bespoke PC definition. In light of this we have included in this claim the same broad scope of activities that have been undertaken (and funded) over a number of Price Control periods.

B. Claim structure

6. This claim is structured in line with the assessment criteria set out by Ofwat for water companies in advance of the early CAC stage:
 - Section 2 sets out the need for an adjustment, including: the unique circumstances leading to the requirement; the degree to which management has controlled the need for an adjustment; and our estimate of the required adjustment and its materiality.



- Section 3 sets out our work to demonstrate that the costs we incur in this area are efficient.
- Section 4 recaps the need for investment in this area, though we primarily address this issue in Section 2.
- Section 5 summarises the work we have done to consider alternative options.
- Section 6 summarises the arrangements in place to protect customers, including our statutory obligations, associated PC and ODI, and broader considerations.

We have included two additional appendices to this CAC:

- Annex A provides supporting information on the customer benefits and operational details related to the softening process.
- Annex B attaches confidential correspondence from the LB Sutton on our softening obligations.



2. The need for the adjustment

We have a unique statutory obligation to soften the supply of water to our customers. Most of our local groundwater sources require the treatment of water to achieve target levels as a consequence of natural hardness. Within this unavoidable requirement, we have optimised our softening treatment and associated costs.

The costs associated with our softening operations have been excluded from Ofwat's base cost modelling. This is because there are no comparable obligations, activities, or costs against which to benchmark other companies in England and Wales. We have therefore assessed our full costs as being in scope for a potential adjustment.

A. SES Water's unique circumstances

Our statutory obligations to soften water

7. SES Water has long-standing statutory obligations to partially soften the naturally hard groundwater in our supply area. These obligations date from 1862 (the Caterham Spring Water Company Act) and 1903 (Sutton District Waterworks Act as amended in 1983). This requirement extends to the five large groundwater water treatment works (WTWs) operated by the Company – Cheam, Elmer, Godstone, Kenley and Woodmansterne. In an average year these sites provide around 81% of the water supplied to our customers.
8. Over successive AMPs we have incurred additional operating costs and invested in, operated, and maintained additional treatment assets (and associated plant and equipment such as materials storage; handling and mixing equipment; control systems; and by-products management) at these five WTWs in order to meet our statutory obligations. Maintaining this activity requires material additional investment, in both operating and capital expenditure, to reliably and efficiently soften the water treated at these sites.

Blending

9. There is natural variance in the relative hardness of raw water sources that supply each site. In practice, these variances will be comparatively small as most sources are located in areas of similar strata. One key exception to this is Elmer. Its sources are located in both the greensands and chalk strata of the North Downs, and these two sources often require blending to different degrees based on variability in raw water quality.
10. The level of water hardness illustrated in Table 1 below shows that the underlying hardness of water abstracted from these five sources are due to fundamental geological conditions which have not changed over recent time. We would expect this stability to continue into the future.



Table 1: Untreated water hardness

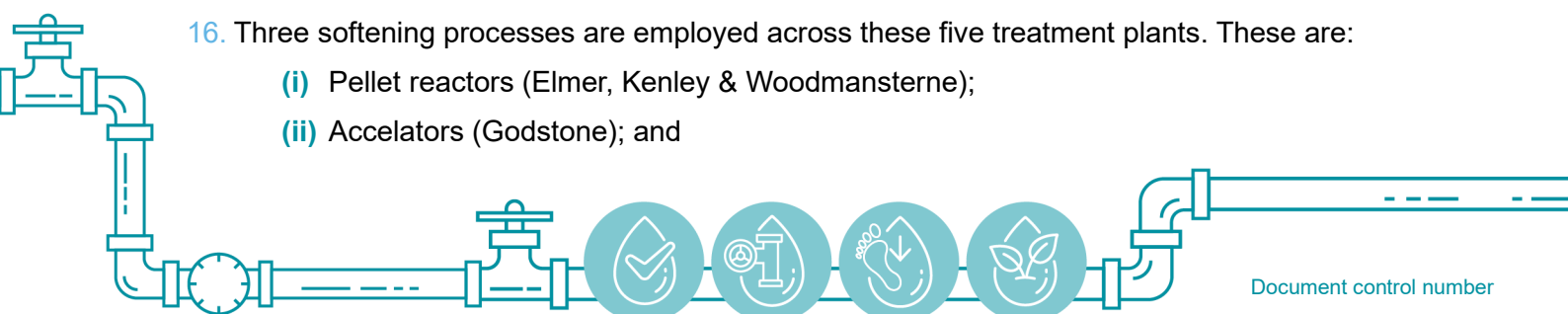
mg/l	Elmer	Kenley	Godstone	Cheam	Woodmansterne
2023	107.0	120.7	107.3	124.3	128.4
2022	111.0	121.7	104.0	126.7	129.0
2021	110.0	122.9	101.9	127.9	130.0
2020	112.0	119.1	101.0	130.9	129.6
2019	110.0	118.8	105.8	126.2	129.7
2018	111.0	120.0	101.8	127.1	130.8
Average	110.0	120.6	104.1	127.2	129.5

Source: SES Water analysis

11. In all cases, the choice of water sources is dictated by raw water quality and quantity, rather than relative hardness. As different strata respond differently to weather conditions and recharge at different rates, this can dictate which sources we abstract from. Equally, variance in raw water quality will require us to rest sources for periods of time. We have taken the view that to the extent that these differences occur, they will net each other out over an extended period of time, such as the five-year Price Control period.
12. Further, only 20% of the water we abstract is naturally of a medium hardness. This comes from our surface water site at Bough Beech and the small treatment works at Westwood and Cliftons Lane situated on greensand strata. We do not have a sufficient quantity of surface water to blend with the naturally hard groundwater to achieve the required level of softening.
13. The operation of our softening sites is such that only a proportion of the partially treated water is softened. This parameter is controlled, and optimised, on a daily basis as a key part of the treatment works operation. This is achieved through the site operators varying the blend – or by-pass – of flows into and around the softening process to ensure that the average hardness of the water produced by the site is maintained around the target levels of 80mg/l for all sites.
14. In practice this means that approximately two thirds of the raw water abstracted is softened and blended with the remaining one third of unsoftened water. The cost of this process varies across the different sites. Within the constraints of our current system connectivity, and accounting for the longer-term considerations regarding availability of water resources, we are confident that we are optimising the blend of partially softened water and hard water in order to keep softening costs to a minimum.

Treatment processes

15. Our statutory requirement to soften adds additional stages to the water treatment process at the five water treatment sites outlined above. At the two remaining groundwater sites we do not undertake softening because the raw water is abstracted from boreholes within greensand strata, which gives rise to naturally softer raw water.
16. Three softening processes are employed across these five treatment plants. These are:
 - (i) Pellet reactors (Elmer, Kenley & Woodmansterne);
 - (ii) Accelerators (Godstone); and

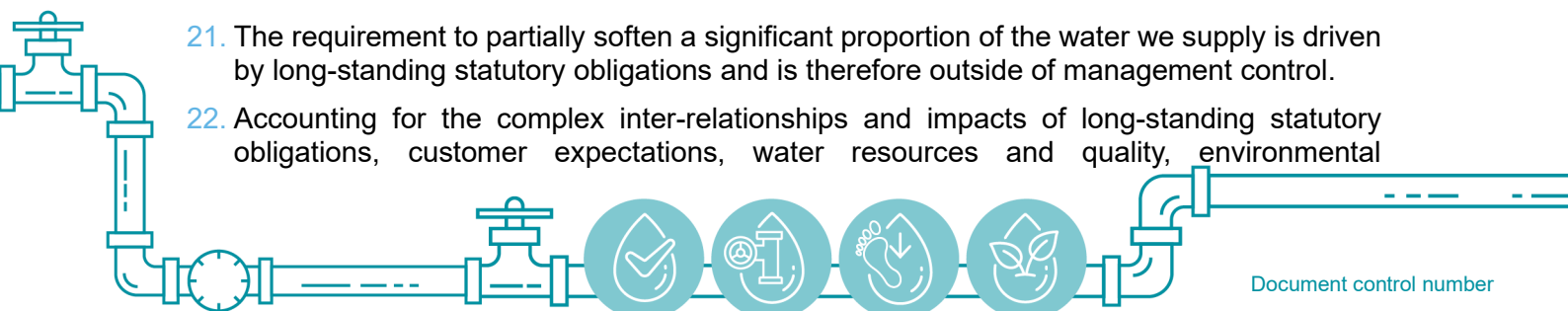


(iii) Ion exchange (Cheam).

17. The additional treatment stages required for softening using pellet reactors comprise:
- (i)** Air strippers which remove dissolved carbon dioxide from raw water that would otherwise increase the consumption of lime in a later stage of the softening process.
 - (ii)** Pellet reactors, where the pH is raised to convert soluble calcium bicarbonate into insoluble calcium carbonate. Here lime slurry is dosed to react with the dissolved hardness salts to encourage crystallisation onto grains of sand to produce chalk pellets.
 - (iii)** Associated lime and sand storage, preparation and dosing equipment, and pellet handling and storage facilities.
 - (iv)** Rapid gravity filters downstream of the reactors, including coagulation and flocculation, to reduce the level of turbidity from around 20 NTU (Nephelometric turbidity units) to less than 1 NTU required by current disinfection standards.
 - (v)** Associated by-product and waste processing facilities including rotary vacuum filters and the associated handling process.
18. The process at Godstone treatment works is similar to the pellet reactor process. However, instead of growing calcium carbonate on sand, the calcium carbonate is allowed to precipitate out in an accelator using lime and ferric sulphate and polyelectrolyte as a flocculant.
19. The final site is Cheam treatment works, where softening is achieved through the removal of calcium via the use of ion exchange technology. This process was adopted in the 1970s and the additional treatment stages comprise:
- (i)** A semi-batch process whereby partially treated water is passed into ion exchange vessels where calcium ions (in the hard water) exchange with hydrogen ions attached to the resin.
 - (ii)** After a period of time, each ion exchange vessel is taken offline, and hydrochloric acid is added to regenerate the resin by replacing the calcium ions with hydrogen ions. Each ion exchange vessel is returned to service.
 - (iii)** The acidic waste from the regeneration process is then neutralised before disposal.
 - (iv)** Aeration towers are then used to remove the naturally occurring carbon dioxide in the water, plus that produced by the ion exchange reaction.
20. Our softening operations are significant in scale and complex:
- The complexity of our softening operations is significantly greater than the other treatment processes listed as examples within categories GW3 or GW4.
 - The softening process is not a single stage physical or chemical treatment, but instead multi-stage.
 - As a result, the unit cost of our softening operations is significantly in excess of other treatment processes typical to categories GW3 and GW4.

B. Management control

21. The requirement to partially soften a significant proportion of the water we supply is driven by long-standing statutory obligations and is therefore outside of management control.
22. Accounting for the complex inter-relationships and impacts of long-standing statutory obligations, customer expectations, water resources and quality, environmental



considerations, and cost, and formal agreements with our local authorities¹, we believe we are taking all reasonable steps to find an appropriate balance in the level of softening we continue to provide.

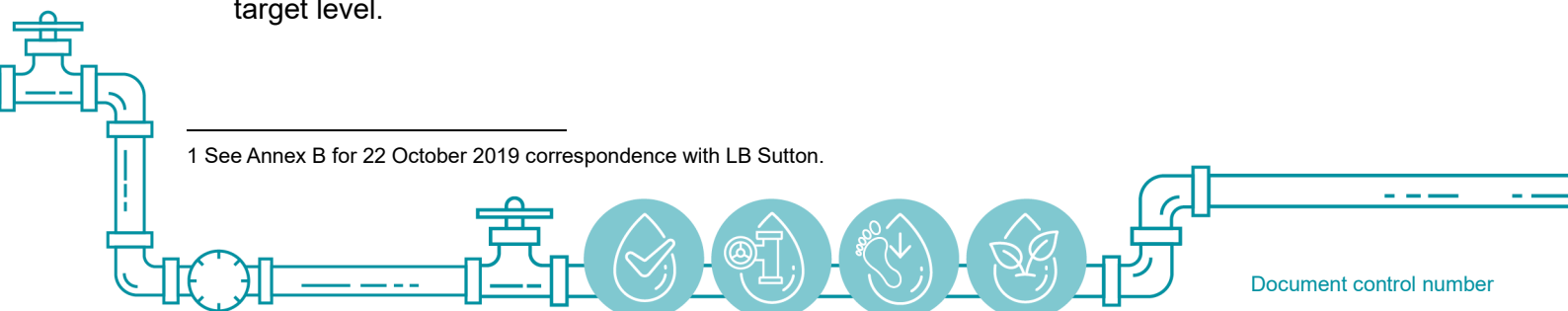
Controllability

23. The hardness of treated water being supplied from these five sites is controlled by the relative blend of the softened stream of water to the bypass stream (since only a proportion of the total flow is softened). This will be influenced by the availability and performance of the softening units (pellet reactors, accelerators or ion exchange vessels) and the availability of the raw water sources in use at any time.
24. Our operations team will routinely try to minimise the volume of water it needs to soften, subject to the relative health of all raw water sources available, thus reducing softening costs and the environmental impact of softening where possible.
25. As noted in the section above, our choice of water source is dictated by raw water quality and quantity. This means that we are required to abstract hard water sources depending on water availability and quality.

Our approach to optimisation

26. We have operated on a 'reasonable endeavours' basis to comply with the agreed level of softening, where stipulated in the statutory obligations. As such, we are proposing to continue to target a level of water softening of 80 mg/l of calcium (reducing the calcium content from an average of around 120 mg/l when it comes out of the ground) in treated water across our five sites where water is softened.
27. Maintaining this target of 80 mg/l of calcium will ensure that we do not unnecessarily soften water beyond what is efficient. For example, the treatment processes used to soften water impact on our total carbon emissions. This includes direct process emissions (scope 1), indirect emissions from the use of electricity (scope 2) and emissions related to the chemicals we employ (scope 3).
28. This target (which was also adopted as a target level of softening for PR19) reflects an efficient level of softening that considers:
 - the targets we agreed with local authorities for PR19 and customers' views on the hardness of the water they receive;
 - the costs of softening water, which vary in proportion to the target level;
 - the relative health and wider benefits of harder water;
 - the environmental impact of the additional treatment process, primarily related to additional power and chemicals consumption; and
 - customer affordability of the overall cost of softening against the cost that could be faced if in home softening devices are used.
29. As highlighted in the sections above, we also optimise the operation of our softening sites such that only a proportion of the partially treated water is softened. This means that we do not unnecessarily soften more water that required which ensures that we do not generate additional emissions or variable costs beyond what is necessary to meet our target level.

¹ See Annex B for 22 October 2019 correspondence with LB Sutton.



Our performance

30. Summarised below is the quarterly softening performance of our five sites. The (unweighted) average treated water hardness over the period from Q1 2020 to Q4 2022 across the five sites was 79.0 mg/l Ca. This demonstrates our operations and therefore costs are reasonably well calibrated to the target we have adopted, supporting our view that we are claiming for an efficient level of expenditure.

Table 2: Treated water hardness (mg/l)

mg/l	Elmer	Kenley	Godstone	Cheam	Woodmansterne
Q1 2020	107.0	72.4	72.3	78.8	84.1
Q2 2020	111.7	74.0	74.9	77.2	77.4
Q3 2020	83.6	75.5	73.6	80.6	76.7
Q4 2020	88.0	83.5	69.1	78.4	72.3
Q1 2021	88.6	74.6	72.2	75.7	76.9
Q2 2021	95.7	71.9	74.6	76.4	74.6
Q3 2021	79.7	69.5	75.9	74.8	72.2
Q4 2021	75.2	69.2	72.8	75.6	74.0
Q1 2022	73.7	76.8	76.1	75.5	72.8
Q2 2022	77.0	74.3	79.1	74.9	71.8
Q3 2022	96.5	80.5	102.4	80.5	74.0
Q4 2022	88.4	70.0	94.8	91.3	76.6

Source: SES Water analysis

31. Comparing Table 1 and Table 2 illustrates that we are broadly managing the scale of our softening operations to deliver on our obligations.
32. Quarters where the target of 80 mg/l has been missed arose due to a range of demand related issues and asset performance. For example, penalties against our softening ODI in 2021/22 arose largely following the commissioning of new equipment at Elmer.
33. SES Water also took steps to suspend our softening activities in Q3 of 2022 in order to reduce supply risks to our consumers due to increased water demand during a heatwave event in that period.

C. Calculation of required adjustment

34. Since we remain the only company that undertakes softening at scale and since Ofwat has excluded softening costs from its base cost modelling, our costs incurred due to our statutory softening activities are not included in our base cost allowance. We therefore propose (as for previous Price Controls) that Ofwat continues to base its allowance on the unique totex costs related to the softening process.

35. The additional treatment processes drive capital investment and maintenance costs that would not be required when compared to standard treatment of groundwater due to the



periodic replacement of the assets used in the additional treatment stages introduced. In all cases, these additional treatment processes also require additional operating expenditure when compared to standard treatment of groundwater. The additional operating expenditure covers chemicals; power; manpower; maintenance; by-products and waste disposal; other operational expenditure.

36. In total, over the period 2025-30, we forecast that we will incur additional efficient expenditure as a result of our obligation to soften water of £15.11 million in operating expenditure (opex) and £13.96 million in capital expenditure (capex) before the application of real price effects (RPEs) and ongoing efficiency (OE). While we have been requested to present our claim pre-RPE and pre-ongoing efficiency, the table below also shows the true size of our claim after the application our assumptions on RPEs and OE. Overall, our claim net of both RPE and OE is £30.72 million.

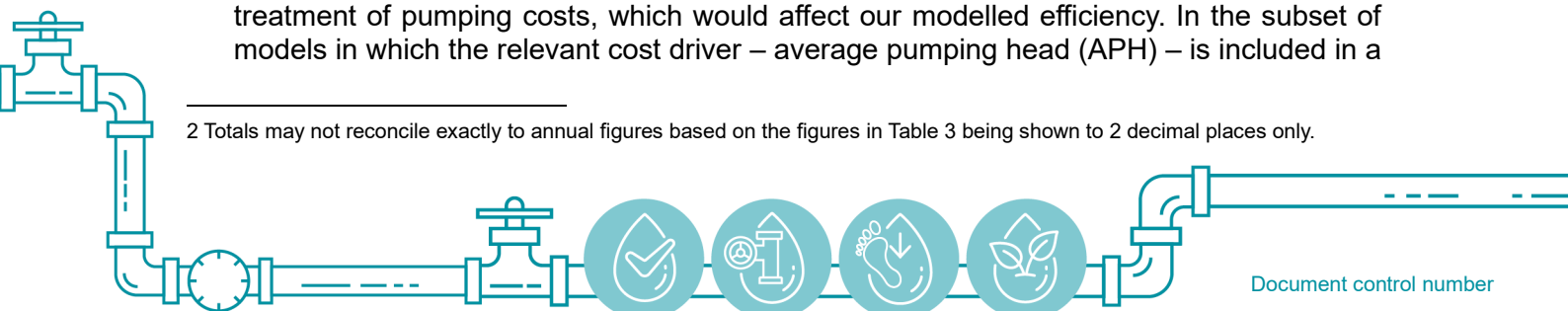
Table 3: Summary of AMP8 costs (£m 2022/23 prices)²

Cost	2025/26	2026/27	2027/28	2028/29	2029/30	AMP8 total
Before application of RPEs						
Opex	3.08	3.05	3.02	2.99	2.97	15.11
Capex	6.23	6.23	0.33	0.33	0.85	13.96
Totex	9.30	9.27	3.35	3.32	3.82	29.08
RPEs						
Opex	0.60	0.52	0.41	0.35	0.52	2.40
Capex	-	-	-	-	-	-
Totex	0.60	0.52	0.41	0.35	0.52	2.40
OE challenge						
Opex	-0.04	-0.07	-0.10	-0.13	-0.17	-0.51
Capex	-0.06	-0.12	-0.01	-0.01	-0.04	-0.25
Totex	-0.10	-0.19	-0.11	-0.14	-0.21	-0.76
After application of RPEs and OE challenge						
Opex	3.64	3.50	3.33	3.21	3.32	17.00
Capex	6.16	6.10	0.32	0.32	0.81	13.71
Totex	9.80	9.60	3.65	3.53	4.13	30.72

Source: SES Water analysis

37. We have not adjusted the amounts in Table 3 for catch-up efficiency. There are two reasons. First, softening costs are outside the scope of base cost modelling and benchmarking, and it would not necessarily be appropriate to apply the overall wholesale challenge out of context. Second, we are submitting a significant CAC in relation to treatment of pumping costs, which would affect our modelled efficiency. In the subset of models in which the relevant cost driver – average pumping head (APH) – is included in a

² Totals may not reconcile exactly to annual figures based on the figures in Table 3 being shown to 2 decimal places only.



form corresponding to the level of model aggregation, SES' efficiency score is very close to the efficient benchmark.

38. The costs outlined in Table 3 exceed our request for £9.22 million in opex and £3.18 million in capex (2017/18 prices) for the AMP7 period. The increase in costs between AMP7 and AMP8 arises largely due to input price pressures on energy and chemical inputs that are critical to our water softening processes as well as the need to undertake critical investments at Kenley. It is also impacted by an updating of our assessment of the labour-related costs driven by our softening operations, which have been underestimated in previous submissions. We discuss these factors in detail in Section 3.
39. Our softening activities are specific to SES and as such the associated costs have been excluded from Ofwat's benchmarking. We therefore take the view that:
- there is no implicit allowance in Ofwat's base cost allowance for softening; and
 - the claim is non-symmetrical in nature and will not result in any consequential adjustments to other companies' allowances.

D. Updates following our submission of our CAC

40. We calculate that an adjustment of £30.72 million in additional efficient expenditure will be required over the AMP8 period (after the application of RPEs and OE). This compares to an adjustment of £31.56 million which was submitted to Ofwat within our early softening CAC on 9 June 2023. This change is due to a combination of four factors:
- (b) Electricity costs:** We have updated our view on electricity prices based on forward price projections developed by Cornwall Insights.
- (c) Distribution Input:** We assume that variable opex costs related to softening evolve over AMP8 in proportion to our forecast of Distribution Input. We have updated our view on Distribution Input since submitting our early CAC claim on 9 June 2023 to Ofwat.
- (d) Resin replacement:** We identified after submitting our early CAC claim that £0.13 million in costs related to the resin replacement programme at Cheam was being erroneously subtracted from our opex forecast. This subtraction was due to a spreadsheet error and not due to any modelling assumption that was made in the construction of the early CAC.
- (e) Ongoing efficiency:** We have decided to challenge ourselves by applying an ongoing efficiency challenge to the CAC submitted as part of our PR24 Business Plan. This assumption generates an additional saving of £0.76 million relative to the early CAC submitted in June 2023.

E. Materiality

41. We expect our total claim of £29.08 (before the application of RPEs and OE) to be significantly above the relevant materiality thresholds. The total claim equates to around 8.7% of forecasted network plus totex over AMP8.



3. Cost efficiency

We have undertaken a detailed bottom-up assessment of the additional expenditure (opex and capex) that we will incur in AMP8 arising from our unique statutory softening obligations.

Consistent with the approach that we adopted in our PR19 claim for softening costs, our estimate of the additional opex we will incur is primarily based on the most recent year's data of our incurred costs. For this submission, we also take into account the impact of the evolution of customer demand and the expected reduction in leakage in AMP8 on our softening related opex.

Our estimate of the additional capex we will incur in AMP8 is based on capital maintenance modelling and asset replacement cycles across the sites. We are confident our costs are efficient. We routinely benchmark our unit costs internally and externally, proactively manage variation in specific cost categories and benchmark our input cost assumptions to well-regarded market benchmarks (e.g., cost of power).

A. Opex cost calculation and supporting evidence

43. The additional opex covers a range of inputs required to deliver on our softening requirements including chemicals; power; manpower; maintenance (labour and materials); by-products and waste disposal; and other opex (plant and sundry equipment).
44. The basis of our forecast costs for the next AMP is the actual costs that we have incurred over recent years and consistent with the approach that we adopted for our PR19 cost claim for softening, our estimate of the additional opex that we expect to incur is based on the most recent year's data of our actual costs.
45. The opex associated with softening is driven by elements which are both fixed and variable in the short term. The requirement to soften drives the fixed costs of management and operational labour along with maintenance labour and materials, all of which are associated with the presence of an asset (and the ongoing statutory obligation to soften) and are generally unaffected by how much water each asset is required to process. A large proportion of our power costs are effectively fixed too as the configuration of the sites is set up to soften as a rule, even when processes are not running/softening.
46. However, the extent of softening that takes place will dictate the variable cost elements of chemicals and waste disposal and to some extent power. Variable costs are driven by works throughput (itself driven by demand), and the hardness of the raw water source (in relation to the target level of softening). Although, in practice, the variability of works throughput has been small, this has still been considered in assessing future costs.
47. Our cost predictions have considered likely reduction in customer demand (and associated reductions based on activities to reduce leakage and per capita consumption) as modelled within our draft water resources management plan (dWRMP). The evolution of demand is illustrated in Table 4 below.

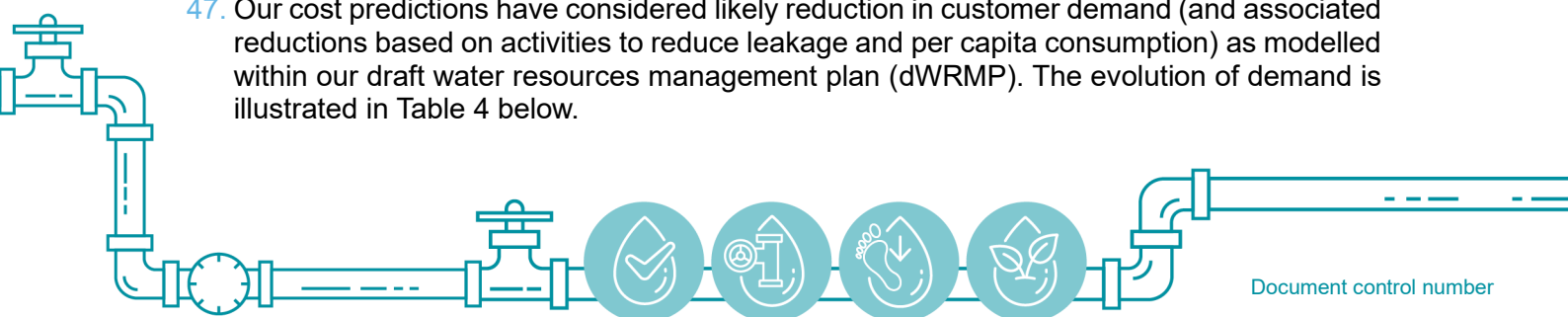


Table 4: Distribution Input forecast used in cost modelling (MI/day)

MI / day	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Distribution Input	170	166	161	157	155	153	150	148

Source: SES Water analysis

48. No adjustment has been made, however, for changes in raw water hardness associated with altering the sources used by each site. Any variance in raw water hardness from different sources is considered to net off over the duration of a price control period.
49. A breakdown of the forecast opex contained in this cost adjustment claim for AMP8 is illustrated in the table below alongside our equivalent claim for AMP7. As shown below, the largest increases in cost are in chemicals and electricity. We discuss the drivers behind all changes in the sections below.

Table 5: Summary of opex costs in AMP7 and AMP8 (£m)

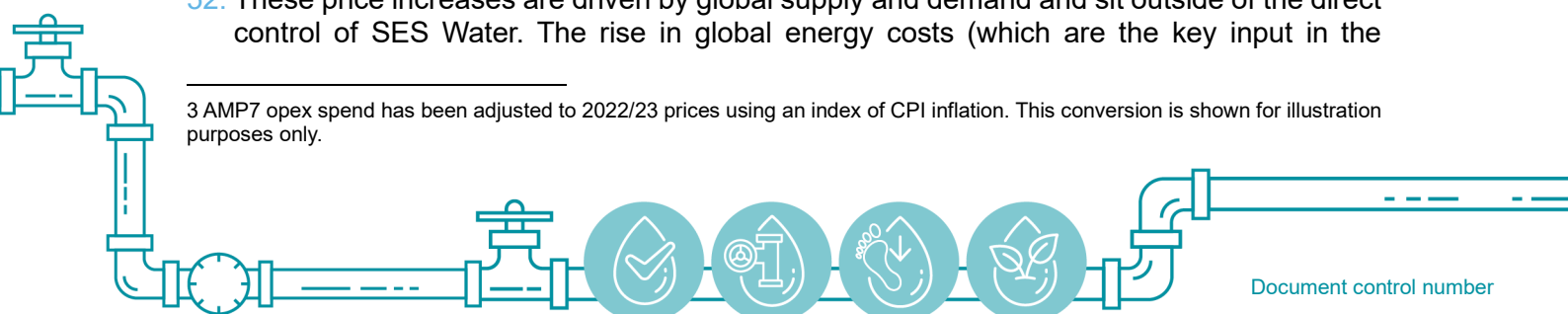
Cost (£m)	AMP7 (2017/18 prices)	AMP7 (2022/23 prices) ³	AMP8 (2022/23 prices) (before RPEs + OE)	AMP8 (2022/23 prices) (after RPEs + OE)
Chemicals	3.86	4.56	5.98	5.80
Electricity	2.92	3.45	3.64	5.87
Labour	1.20	1.42	2.47	2.40
Plant Maintenance (Including Labour)	0.61	0.72	1.70	1.64
Waste Disposal	0.30	0.35	0.35	0.34
Other	0.33	0.39	0.98	0.95
Total	9.22	10.89	15.11	17.00

Source: SES Water analysis

Chemicals

50. Seven different chemicals are used by SES Water in our softening processes: hydrochloric acid; lime; caustic soda; Calgon; silver sand; polyelectrolyte; and ferric sulphate.
51. The global price of these chemicals has increased materially since the start of AMP7. For example, the cost of hydrochloric acid incurred by SES Water has increased from £95/tonne in 2020/21 to £170/tonne in 2022/23. Over the same period, the unit-cost of lime increased by £135/tonne (128%), the unit-cost of silver sand increased by £20/tonne (22%), and the unit-cost of ferric acid has increased by £60/tonne (36%).
52. These price increases are driven by global supply and demand and sit outside of the direct control of SES Water. The rise in global energy costs (which are the key input in the

³ AMP7 opex spend has been adjusted to 2022/23 prices using an index of CPI inflation. This conversion is shown for illustration purposes only.



production of chemicals such as hydrochloric acid) since late 2020 has placed a particular pressure on chemical supply chains.

53. Despite these global price pressures, we have continuously focused on efficiency measures to reduce our cost burden through AMP7. For example, we have reduced our use of hydrochloric acid at Cheam through the optimisation of the soften process by around 13%, resulting in us controlling the softening at the site closer to the 80 mg/l target.
54. Faced with escalating costs, chemical costs for AMP8 have been forecast on the basis that the price of chemicals used in the 2022/23 period remain constant in real terms. We consider this a reasonable assumption in the context of high levels of uncertainty around future price trends in global chemical supply chains. Indeed, over recent years, we have witnessed significant volatility in chemical costs. All of the chemicals (of feedstock materials) arise at least in part from European or global supply chains and are therefore influenced by fluctuating exchange rates and the potential impact of Brexit and the ongoing conflict in Ukraine. In the context of this uncertainty, we currently assume no further change in the unit cost of chemicals used for softening in AMP8.
55. Table 6 below provides a summary of the additional chemical costs related to softening that we incurred in 2022/23.

Table 6: Summary of chemical costs incurred in 2022/23 (£ thousand, 2022/23 prices)

Cost (£000s)	Cheam	Woodmansterne	Kenley	Elmer	Godstone	Total
Hydrochloric Acid	534.7	-	-	-	-	534.7
Lime	-	310.4	128.9	134.0	48.8	622.2
Caustic Soda	19.1	-	-	-	-	19.1
Calgon	-	0.1	0.5	0.2	0.1	0.9
Silver Sand	-	48.7	13.9	10.1	-	72.7
Polyelectrolyte	-	0.8	1.0	1.9	1.1	4.7
Ferric Sulphate	-	9.7	9.8	50.2	11.5	81.3
Total	553.8	369.8	154.1	196.5	61.5	1,335.6

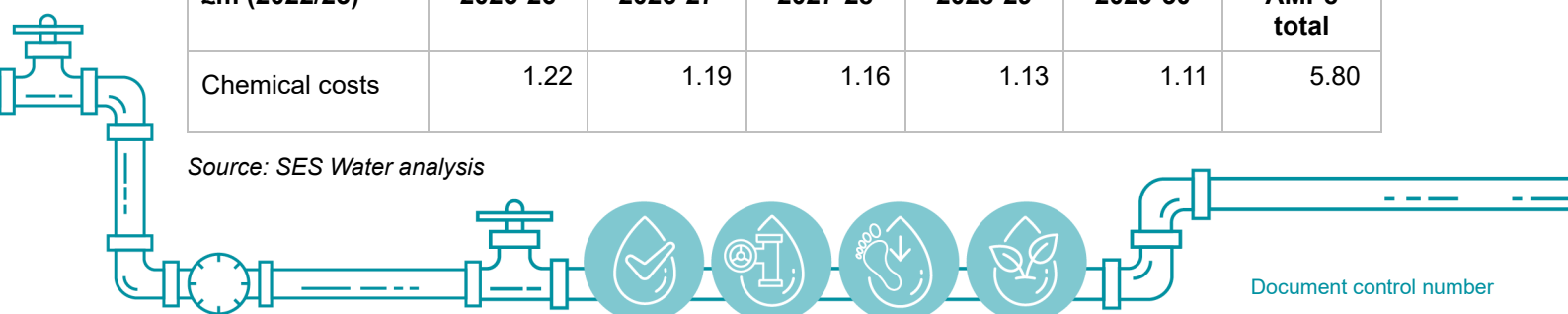
Source: SES Water analysis

56. Starting with our 2022/23 baseline, we then forecast chemical costs over AMP8 by assuming a proportionate reduction in the consumption of chemicals in line with distribution input (as illustrated in Table 4). To this trend, we then apply an ongoing efficiency challenge of 1% per annum to this declining forecast of consumption.
57. Table 7 below provides a summary of our forecast of chemical costs after the application of the OE challenge for AMP8.

Table 7: Summary of chemical cost forecast for AMP8 (£m 2022/23)

£m (2022/23)	2025-26	2026-27	2027-28	2028-29	2029-30	AMP8 total
Chemical costs	1.22	1.19	1.16	1.13	1.11	5.80

Source: SES Water analysis



Power

58. Power comprises the cost of electricity purchased for use on site, as consumed by the key assets used in the softening process. The consumption of electricity by each of the key assets used in the softening process have been calculated based on their daily utilisation and their respective electrical ratings.
59. Only assets with high load factors (daily utilisation) are used in the calculation of power costs. This conservative assumption means that power associated with filtration and sludge handling has not been included in the calculations as their load factors are low and therefore the associated power costs are low. The table below provides a detailed breakdown of how we have estimated the electricity costs related to softening for each WTW in 2022/23 based off an average electricity price of £0.1080 / kWh.

Table 8: Summary of electricity costs (£m 2022/23 prices)

Appliance	Number of units (#)	kW	Hours/day	Costs in 2022/23 (£m)
Cheam				
Hard water pumps	4	75	24	0.284
Regen pumps	2	45	10	0.035
no4 borehole pump	1	11	10	0.004
Effluent pumps	3	11	7.5	0.010
Cheam total				0.333
Elmer				
relift pumps	2	90	24	0.170
stock tank mixers	2	1.1	24	0.002
air stripper fans	1	11	24	0.010
lime dosing pumps	1	7.5	24	0.007
RGF Dirty backwash pumps	1	18.5	12	0.009
recirc pump	1	5.5	24	0.005
Elmer total				0.204
Godstone				
Stock Tank Mixers	1	0.75	24	0.001
Accelator Drives	2	2.2	24	0.004
Dosing Pumps	2	1.1	24	0.002
Dirty Water Mixer	1	2.2	24	0.002
Dirty Water Pumps	1	7.5	8	0.002
Godstone total				0.011
Kenley				
raw water boosters	2	22	24	0.042
air stripper fans	1	5	24	0.005
stock tank mixers	3	1.1	24	0.003

recirc pumps	1	5.5	24	0.005
lime dosing pumps	2	1.1	24	0.002
sludge mixer	1	2.2	24	0.002
Kenley total				0.059
Woodmansterne				
relift 3 x 75	2	75	24	0.142
stock tank mixers	4	7.5	24	0.028
Air stripper fans	1	11	24	0.010
RGF backwash tank mixers	12	4	12	0.023
Lime dosing pumps	2	1.1	24	0.002
Woodmansterne total				0.205
Total				0.813

Source: SES Water analysis

60. We calculate electricity costs over AMP8 (net of RPEs) by assuming that:

- (i) Power consumption will reduce over time from the 2022/23 year in line with the evolution of distribution input. We note that this is a conservative assumption which results in a reduction in our estimate of efficient costs as a majority of our power costs related to softening are fixed in practice.
- (ii) Future electricity prices faced by SES will diverge from economy wide inflation and will align with the electricity forward curve developed by Cornwall Energy for the AMP8 period (see Appendix SES005 Explaining Our Costs - C Energy Costs for further discussion of this forecast).
- (iii) We then apply an ongoing efficiency challenge of 1% per annum over the AMP8 period.

61. Table 9 below provides a summary of our forecast electricity costs for AMP8.

Table 9: Summary of electricity cost forecast for AMP8 (£m 2022/23)⁴

£m (2022/23)	2025-26	2026-27	2027-28	2028-29	2029-30	AMP8 total
Electricity costs (before application of RPEs and OE)	0.75	0.74	0.73	0.72	0.71	3.64
RPEs	0.60	0.52	0.41	0.35	0.52	2.40
OE	-0.01	-0.03	-0.03	-0.04	-0.06	-0.17
Electricity costs (after application of RPEs and OE)	1.33	1.24	1.10	1.03	1.17	5.87

Source: SES Water analysis

⁴ Totals may not reconcile exactly to annual figures based on the figures in Table 3 being shown to 2 decimal places only.

By-products & waste disposal

62. These costs, again based on actual costs incurred and extrapolated forward based on water demand, are driven by the requirement to treat the by-products and waste of the softening process – primarily pellets and sludge.
63. In the case of pellets, these are used as an input to a manufacturing process. As such, our only cost is the collection and haulage costs of removing these pellets from our sites and taking them to the manufacturer's facility.
64. Ahead of AMP7, we benchmarked our collection and haulage costs with a competitor manufacturer and secured a reduction of around 35%. There are few outlets for this by-product in the UK and we are comfortable that this benchmarking exercise ensures we continue to have an efficient operation in place, which avoids the alternative of having to dispose of pellets as a waste, at significant additional cost.
65. All sludge produced via the softening process is disposed of to landfill at the prevailing rate, primarily dictated by the level of environmental taxation in operation.

Labour and maintenance

66. The presence of additional softening assets requires a level of regular intervention and maintenance that, were they not to exist, would significantly reduce the total levels of manpower and materials deployed on the sites. As such, labour and maintenance costs are categorised as a fixed cost associated with the requirement to soften – i.e., we assume that these costs do not evolve in proportion to the evolution of distribution input over time.
67. We estimate that four operational staff are allocated to softening activities across the five WTW sites. Cheam, Woodmansterne, and Elmer each have dedicated operations staff for softening. The final operational staff unit that is allocated to softening is shared between Godstone and Kenley. In addition to these operational staff requirements, we estimate one additional M&E technician at both Cheam and Kenley and one additional system technician at Elmer. Additional management costs and payroll costs (e.g., national insurance, trainings, pension contributions etc) associated with each staff involved with softening are also included. This proposal is an increase in the proportion of our labour costs that are attributable to our unique softening activities compared to our PR19 submission.
68. We have included overtime costs that will be incurred for staff involved in softening related activities. Overtime costs were not included in our cost adjustment claim for softening in AMP7.⁵ The inclusion of these costs adds an additional £0.5 million in costs over the AMP8 period to our claim.
69. In terms of maintenance costs and related costs, we have retained our approach of basing costs on the output from granular modelling that uses actual data on plant breakdown rates, maintenance activity and frequency of asset replacement. For AMP8 we assume that 50% of all plant maintenance costs are related to our softening activities.
70. While we expect our labour costs – wage rates – will increase with the OBR hourly wage forecast, rather than simply CPIH inflation, we are targeting that we will manage the increase in expenditure such that our overall opex remains in line with CPIH inflation. As a result, to forecast costs over AMP8 we conservatively assume that estimated labour and maintenance costs associated with softening in 2022/23 are projected to remain constant in real terms across AMP8.

⁵ Overtime costs incurred run at £200k p.a. in production, of which we have assigned 50% of this to softening or softening related activity. These costs should have been included, but were not, in our PR19 cost claim for softening.

Other costs

71. These costs relate to a range of other fixed activities at each WTW which are nonetheless related to our need to soften. The requirement to soften increases the general level of consumption and activity at each WTW facility. For example, SES Water incurs material costs related to materials and consumables, instrument maintenance, bought-out services, sundry plant, and general apparatus.
72. Our cost estimates for AMP8 are developed based on actual costs incurred in 2022/23 which is extrapolated forward in real terms over the AMP8 period. We assume that 50% of these costs are related to our softening obligations.
73. These opex costs are treated as 'fixed' within our detailed cost methodology. This means that we assume that these costs do not evolve in proportion to water consumption over time.

B. Capex cost calculation and supporting evidence

74. The capex on softening falls into two categories for AMP8: the replacement of softening assets at Kenley WTW and the ongoing capital maintenance of softening assets. A comparison of incurred and forecast capex spend between AMP7 and AMP8 is shown in the table below.

Table 10: Summary of capex costs in AMP7 and AMP8 (£m)

Cost (£/m)	AMP7 (2017/18 prices)	AMP7 (2022/23 prices) ⁶	AMP8 (2022/23 prices) (before RPEs + OE)	AMP8 (2022/23 prices) (after RPEs + OE)
Capex	3.18	3.75	13.96	13.71

Source: SES Water analysis

75. While Table 10 shows a significant increase in capex between AMP7 and AMP8 we note that historic capital works on our softening assets has alternated significantly across previous AMPs. For example, capex equalled £10.9 million in AMP4, £2.6 million in AMP5, £20.2 million in AMP6, and £3.2 million in AMP7.
76. The cyclical and lumpiness of this expenditure is driven by the small number of WTW sites engaged in softening across SES Water's portfolio and when the major softening refurbishment programmes occur between AMPs. SES Water follows a strategy of spreading out major capital investment schemes in order to avoid investment in multiple sites falling within the same price control period. As a result, capex associated with softening can vary significantly between AMPs.
77. We provide a summary of the breakdown of the proposed capital spend in the subsections which follow below.

⁶ AMP7 opex spend has been adjusted to 2022/23 prices using an index of CPI inflation. This conversion is shown for illustration purposes only.



Capital works at Kenley WTW

78. The softening equipment at the Kenley WTW plant has been identified for significant investment within the AMP8 period. Significant investment in softening equipment at this WTW was incurred in 1985 and is becoming increasingly unreliable and expensive to maintain.
79. The scope of this work is to replace the water filters at this site which has been modelled at a cost of £11.79 million related to softening (before the application of any OE challenge). This assumes a total investment spend of £13.1m at the site on filters and a 90% dependency on filters is due to softening (we have assumed up to 100% previously). We assume that this capex will be incurred in the first two years of the AMP8 period.

Ongoing capital maintenance and replacement expenditure

80. The remainder of the capital expenditure assigned to this cost claim ongoing capital maintenance of softening assets. We have identified £1.024 million in planned maintenance upgrades (before the application of any OE challenge) which relate to our softening assets across the five WTW plants. Of this total, £0.8 million relates to capital investment at the Elmer WTW.⁷
81. Our capex estimate for the AMP also includes the replacement of resin at Cheam, at an estimated price of £520k (before the application of any OE challenge) which we assume will be incurred in 2029/30. We also include an estimate of our reactive capital maintenance programme for our softening assets of £630k (before the application of any OE challenge) which we assume will be incurred pro rata across AMP8.
82. Our estimate of the requirement for reactive capital maintenance of our production assets has been informed by PIONEER modelling. PIONEER is an established system used by SES Water for assessing capital maintenance in previous AMPs. The PIONEER modelling system selects interventions (asset replacements or refurbishments) as required in order to maintain a stable level of serviceability at minimum cost, or to achieve a step-change in serviceability (where justified by customer research or regulatory requirements).

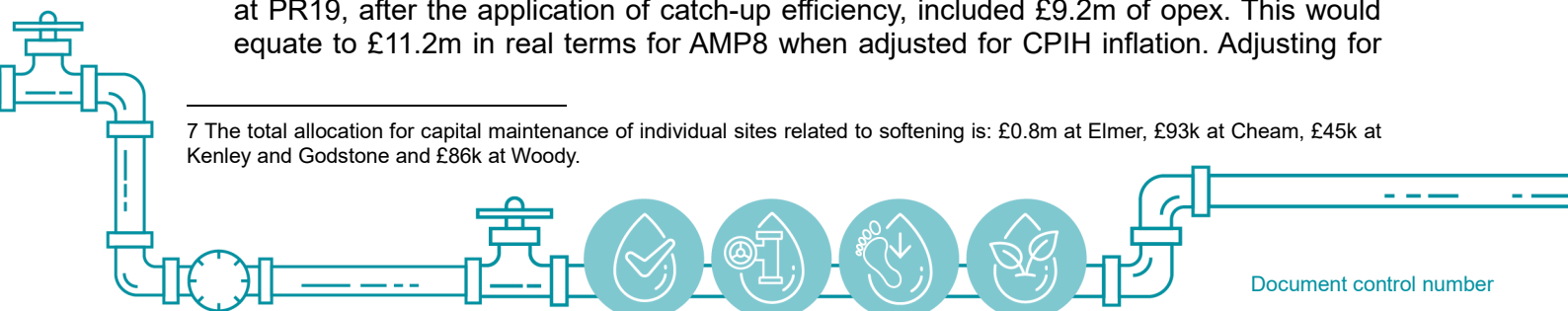
C. Benchmarking and efficiency assessment

83. Our unique obligation in this area makes benchmarking challenging. Other examples we are aware of softening at scale are less comparable: for example, softening at scale is more common in the Netherlands but the different operating environment makes direct comparison uninformative.
84. We do, however, review our own costs to support ongoing efficiency in our spend. We benchmark unit costs internally and externally and proactively manage particular sensitivities to specific cost categories. As noted above, we have recently benchmarked our collection and haulage costs with a competitor manufacturer and base our business planning estimates of ongoing costs on market benchmarks.

Internal benchmarking

85. We are satisfied that our submission reflects efficient operation and costs. Our submission at PR19, after the application of catch-up efficiency, included £9.2m of opex. This would equate to £11.2m in real terms for AMP8 when adjusted for CPIH inflation. Adjusting for

⁷ The total allocation for capital maintenance of individual sites related to softening is: £0.8m at Elmer, £93k at Cheam, £45k at Kenley and Godstone and £86k at Woody.



CPIH alone however ignores the real input price pressures faced on both electricity and chemical costs which both increased in price materially beyond what is implied by CPIH.

86. In the face of such rising input prices, which are outside the direct control of SES Water, we are confident that we have efficiently managed operations to deliver on our unique statutory obligations to soften. As with other areas of our PR24 programme, our optimal softening costs have been derived using software tools widely used in the industry. The PIONEER and 'CopperLeaf' tools that we are employing to develop our business plan helps us to optimise our spend both across areas and over time. We are confident that this supports cost efficiency in relation to softening.

Managing key cost categories

Cheam chemical costs

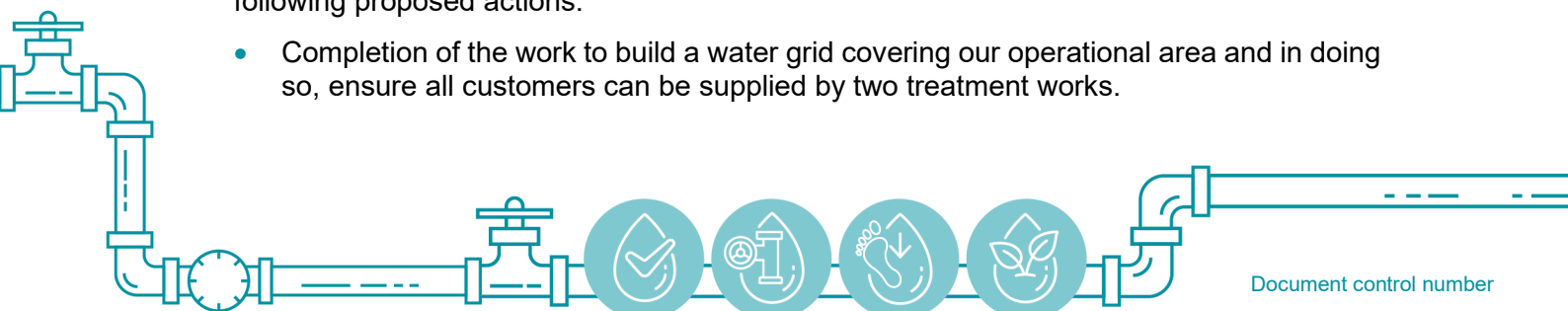
87. Cheam is the only softening site not to currently employ pellet reactors (or accelerators) to undertake softening. Instead, the site uses ion-exchange technology. This is a higher unit cost methodology of softening than pellet reactors and was the preferred technology of the Sutton District Water company in the 1970's when the Cheam site was built.
88. Ion exchange requires the use of hydrochloric acid in the batched regeneration of resin in order to soften reliably and efficiently. This acid presents the single most expensive element of Cheam's variable softening operating costs – around 37% of the total.
89. We consider that the investment costs required to change technology at the Cheam site would be prohibitive relative to the higher unit cost entailed from utilising existing assets. Our focus therefore continues to be on continually optimising chemical usage rates.
90. Improvements in performance have been achieved over the last AMP, with a greater than 20% reduction in acid usage per megalitre of water treated. This has enabled us to mitigate the impact on our cost base of recent trends in chemical costs.

Power costs calculation

91. We have ensured that our power cost calculations only reflect process equipment with a high daily utilisation (indicating significant regular use), which were dedicated to the process of softening. This means that, although the primary use of the Rapid Gravity Filters (RGF) is to remove the turbidity caused by the softening process, none of the energy costs associated with these units, or those related to it (such as flocculant or coagulant dosing), have been included in the calculation.
92. We do not currently have individual process units sub-metered, so we have used the process equipment rating plates (i.e., the power rating for each unit at its given duty) to calculate power consumption.

Future efficiencies and optimum operation

93. A number of systems constraints exist that prevent full optimisation of our sites based on the relative costs to abstract, treat, and distribute water to customers across our operating region. These include the availability at source of sufficient quantities of water and the level of capacity of interconnecting strategic mains between current water supply zones.
94. During AMP7 we have improved the level of optimisation that we can achieve through the following proposed actions:
- Completion of the work to build a water grid covering our operational area and in doing so, ensure all customers can be supplied by two treatment works.



- Implementation of models developed by consultants operating in the sector that optimise the choice of sources and treatment based on availability of raw water resources and the unit cost of abstracting, treating, and distributing water.
95. Together, these activities will help facilitate the delivery of ongoing efficiencies of our softening operations by choosing lower cost operational regimes.
96. In addition to this, efficiencies will also be delivered within our softening operations through ongoing optimisation of chemical use via the introduction of new control technologies, improving maintenance techniques via the shift from predominantly time-base planned preventative maintenance to more condition-based maintenance, and the gradual replacement of older equipment with more energy-efficient kit.



4. The need for this investment

There is a requirement for ongoing investment in our assets and systems to deliver on our softening obligation. As discussed above, the cyclicity and lumpiness of this expenditure is driven by the small number of WTW sites engaged in softening across SES Water's portfolio and when the major softening refurbishment programmes occur between AMPs, together with the softening-related reactive capital maintenance we need to undertake.

98. As highlighted in Section 2 and 3, the capex on softening that is included in this cost adjustment claim falls into two categories for AMP8: the replacement of softening assets at Kenley WTW and the ongoing reactive capital maintenance of softening assets.

Need for capital investment

99. The need for periodic investment derives from our unique statutory obligations in relation to softening, which are explained in Section 2. This results in a profile of capex expenditure that fluctuates across price control periods as refurbishment and replacement is needed to the softening related facilities at the five WTW plants.

100. As discussed above, the softening equipment at the Kenley WTW plant has been identified as requiring significant investment within the AMP8 period. The softening equipment at this WTW has been last upgraded in 1985 and is becoming increasingly unreliable and expensive to maintain. The scope of this work is primarily to replace the water filters at this site which has been modelled at a cost of £11.79 million (excluding ongoing efficiency).

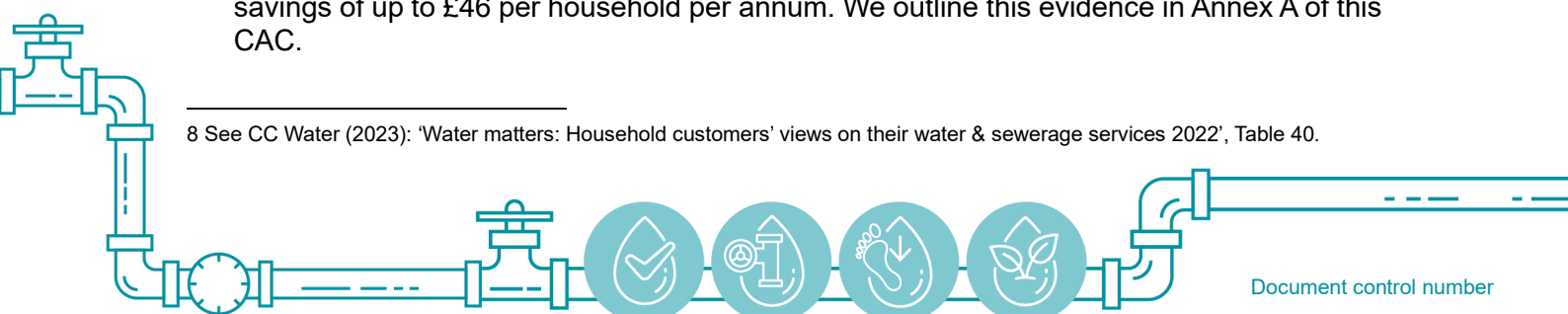
101. The remainder of the capital expenditure assigned to this cost claim relates to reactive capital maintenance of softening assets as explained in detail in Section 3.

Customer Support

102. We carefully consider the preferences of our customers around the hardness of water. While the majority of customers will have limited knowledge of the softening process that their water goes through, we know from our ongoing conversations that, in general, customers prefer softer water.

103. We also track attitudes to the hardness of the water customers receive. In 2022 58% of customers are satisfied with the hardness/softness of the water they receive. We therefore consider that customers support our current approach to optimising the extent of softening.⁸ There is a net financial benefit from SES Water's softening activities to customers as the cost per customer of the softening process followed by SES Water is lower than the cost of the increased use of detergents and salts; increased replacement rate of household goods ; and the installation and maintenance of in-home softening devices. We estimate that softening processes carried out by SES Water generates cost savings of up to £46 per household per annum. We outline this evidence in Annex A of this CAC.

⁸ See CC Water (2023): 'Water matters: Household customers' views on their water & sewerage services 2022', Table 40.



5. Options analysis

We have an ongoing statutory obligation to soften. We optimise our refurbishment and reactive capital maintenance spend (as set out above) but the business strategy for softening remains appropriate for the forthcoming AMP.

104. Owing to the statutory obligations we have to partially soften water; we have not tested binary options: ceasing the process is not an option available to us at present. However, as outlined in Section 2 and Section 3 above, we continue to consider our options in optimising our softening operations and capital investment programme.
105. As outlined above, we use three different treatment processes across our five softening sites. This arrangement has remained broadly similar since the mid 1980's, however a number of changes have been made over time.
106. Two examples of this serve to highlight our proactive and continuous process of optimisation and optioneering of the softening obligation:
- Woodmansterne treatment works was converted to the current pellet reactors in the late nineties after the merger between the East Surrey Water and Sutton District Water companies to align with the processes used at Kenley and Elmer treatment works and so the footprint of the entire treatment process could be located within the curtilage of the operational site boundary.
 - Cheam treatment works uses ion exchange. During the optioneering work conducted ahead the Cheam refurbishment project in 2006, the option of converting the site to pellet reactors was assessed. However, due to the extent of additional building work that would have been required, this cost – at £21.57m – was at the time considered prohibitive in comparison to refurbishing the existing process – at £4.83m. Over a 25-year design life, ion exchange continues to be the lowest overall cost process for Cheam, despite the variable unit costs of the ion exchange process being materially higher than the pellet reactor process, and its higher throughput.



6. Customer protection

Customers are ultimately protected by our statutory obligations to provide partially softened water. We further protect our customers through our proposed PC and ODI, as well as broader provisions in PR24 that will apply particularly to our softening operations given their importance to our overall cost base.

Performance commitment and ODI

107. During the AMP6 period of 2015-2020, a bespoke Performance Commitment (PC) and associated Outcome Delivery Incentive (ODI) was introduced related to the delivery of our water softening programme. At PR19, a bespoke PC was introduced by Ofwat given SES requested a cost adjustment claim to continue to provide softened water for the 2020-2025 period. This bespoke PC was to incentivise SES Water to provide partially softened water to its customers on a consistent basis across its five named treatment works.
108. As the statutory obligation to partially soften water remains in place, we consequently expect to be subject to a bespoke PC, as defined at PR24. We have proposed to maintain the PC level arrangements already in place at PR19.
109. Under these arrangements, we will sample each treatment works that softens the water (currently five works) three times a week at the works outlet. The hardness tests will represent a uniform regime over time. Any extra tests will not be included.
110. The target for each works will be a maximum hardness of 80.00 mg Cal/l. We will face a penalty only ODI based on the number of milligrams of calcium per litre by which we fail to meet the fortnightly target. This ensures that customers are protected, since we are strongly incentivised to meet the agreed PC even over relatively short periods of time.
111. See Appendix SES024 – ODI design & calibration for discussion of the proposed ODI rate for our proposed bespoke PC.

Broad customer protection

112. Due to the scale of impact softening has on our operating costs, it follows that they are, and will remain, a key focus for any ongoing efficiency improvements. We commit that this will be the case over the life of this plan.
113. We have made clear to our stakeholders that water wholesomeness takes priority over softening operations. This is aligned with the intent behind the Water Industry Act 1991. In practice, this means that we will temporarily cease softening operations if they pose a threat to the safety of the drinking water supplied.
114. We expect our suite of PR24 PCs and ODIs to fully support this – with four specific ODIs included for maintaining water quality compliance and low levels of customer concerns about their water; along with reducing unplanned outages and the risk of supply failures.



Annex A: Supporting material

Customer benefits from softening

115. We estimate that softening activities carried out by SES Water generates material cost savings of £46 per household per annum.
116. This level of cost savings is derived from a range of assumptions surrounding the reduced need for households to consume detergents and salts to deal with hard water alongside a reduced need to replace and maintain household appliances.

Cost savings related to household detergent

117. We estimate average household detergent costs per litre based on a review of the common supermarket brands that are outlined in the table below.

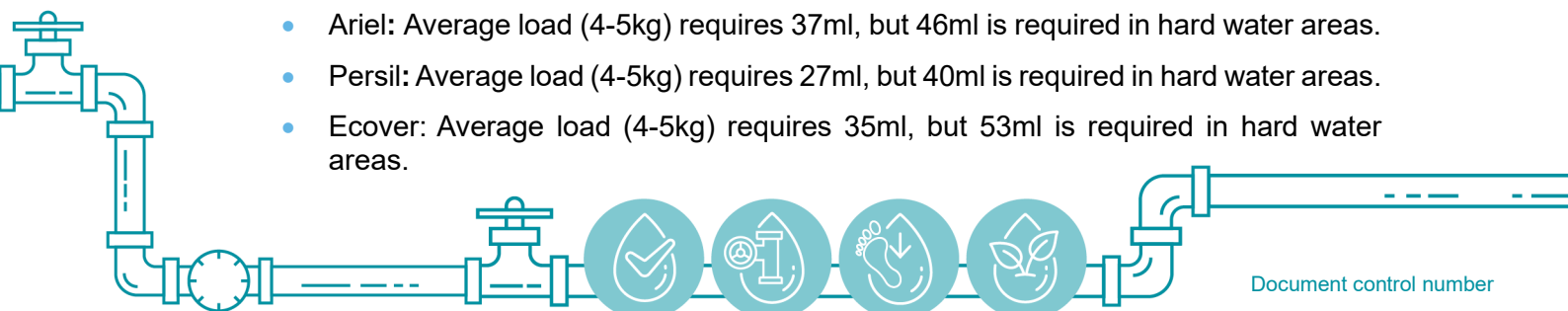
Table 11: Review of typical supermarket brands and prices today

Brand	Size	£ per litre
Ariel Washing Liquid	1225ml	5.70
Ariel Colour Washing Gel	1785ml	5.04
Bold 2in1 Washing Gel	840ml	5.95
Bold 2in1 Washing Liquid	1680ml	4.76
Ecover Bioconcentrate	1500ml	6.67
Fairy Non-Bio Gel	840ml	7.14
Fairy Non-Bio Liquid	1225ml	5.71
Persil Non-Bio Liquid	1026ml	6.82
Persil Colour Liquid	1431ml	5.94
Persil Colour Gel	1225ml	6.12
Own Brand Gel Non-Bio	720ml	3.96
Own Brand Super Concentrated Liquid	1800ml	1.90
Average	1275ml	5.48

Source: SES Water analysis

118. Based on a further review of information published by common household detergent brands, we estimate that 14ml or 43% more detergent is needed in the presence of hard water. This increase is based on the average increase advised by common supermarket detergent brands:

- Ariel: Average load (4-5kg) requires 37ml, but 46ml is required in hard water areas.
- Persil: Average load (4-5kg) requires 27ml, but 40ml is required in hard water areas.
- Ecover: Average load (4-5kg) requires 35ml, but 53ml is required in hard water areas.



- Own Brand: Average load (4-5kg) requires 30ml, but 45ml is required in hard water areas.
119. Using the above information, we estimate that the removal of hard water generates a saving of £20.71 per household per annum based on an assumption of 270 machine washes per year.

Cost savings related to other cleaning products

120. We estimate total household savings of £25.29 for other cleaning products as a result of being supplied with water that has been softened by SES water.
121. We estimate that water softening generates shower gel savings of £8.76 per household per annum. This is based on an assumption that the use of shower gel per shower increases by 50% in areas with hard water as follows:
- Soft water area: 4ml of shower gel used at an average cost of 48p per litre. This gives a cost of £7.01 per person per annum and a cost of £17.52 per household per annum under an assumption of 2.5 persons per annum.
 - Hard water area: 6ml of shower gel used at an average cost of 48p per litre. This gives a cost of £10.51 per person per annum and a cost of £26.28 per household per annum under an assumption of 2.5 persons per annum.
122. We estimate that water softening generates shampoo savings of £11.83 per household per annum. This is based on an assumption that the use of shampoo per shower increases by 50% in areas with hard water as follows:
- Soft water area: 4ml of shampoo used at an average cost of 91p per litre. This gives a cost of £9.46 per person per annum and a cost of £23.66 per household per annum under an assumption of 2.5 persons per annum and 5 hair washes per person per week..
 - Hard water area: 6ml of shampoo used at an average cost of 91p per litre. This gives a cost of £14.20 per person per annum and a cost of £35.49 per household per annum under an assumption of 2.5 persons per annum and 5 hair washes per person per week.
123. We estimate that water softening generates washing up liquid savings of £1.70 per household per annum. This is based on an assumption that the use of washing up liquid per wash increases by 50% in areas with hard water as follows:
- Soft water area: 3ml of washing up liquid used at an average cost of 31p per 100ml. This gives a cost of £3.39 per household per annum under an assumption of one wash per household per day.
 - Hard water area: 4.5ml of washing up liquid used at an average cost of 31p per 100ml. This gives a cost of £5.09 per household per annum under an assumption of one wash per household per day.
124. We also estimate annual savings per household of £3 for salt required to clean a domestic dishwasher in the presence of hard water.



Annex B: Correspondence related to LB Sutton

We include correspondence from LB Sutton supporting our continued softening activities on 22 October 2019. We also include an updated confirmation of this support for AMP8 received via email on 11 August 2023.

Assistant Director - Highways, Transport, and Regulatory Services
RB Kingston and LB Sutton

Anthony Ferrar
Managing Director
SES Water
BY EMAIL



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22 October 2019

Dear Mr Ferrar

Sutton District Waterworks Act 1903

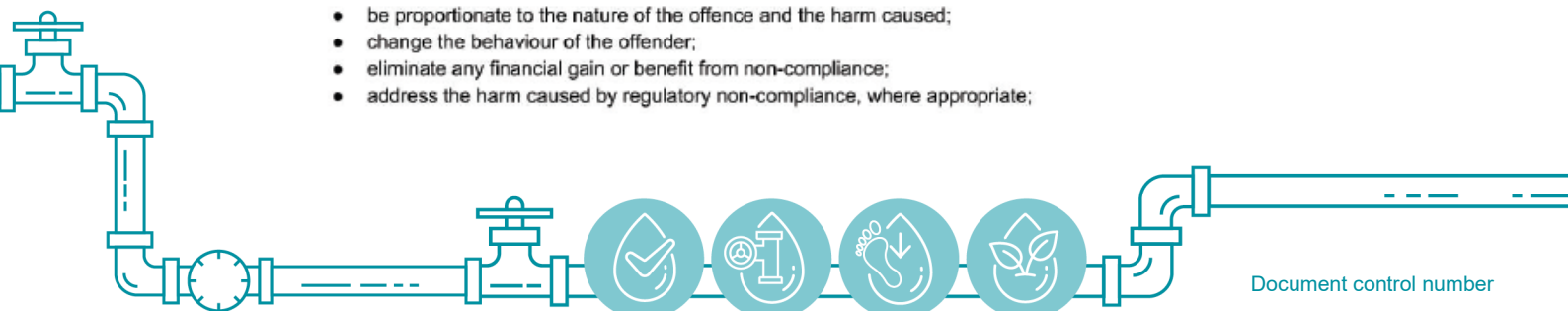
Further to previous meetings and correspondence I wanted to set out Sutton Council's position in relation to the Sutton District Waterworks Act 1903 (as amended by the Sutton District Water Order 1983). I can confirm that it is Sutton Council's understanding that the Sutton District Waterworks Act 1903 (as amended by the Sutton District Water Order 1983) remains in force and it places an obligation on SES Water within its Sutton supply area to soften water to a maximum of 12 Clarke degrees (or 68.6 mg/l Ca). This legislation does not specify a minimum level.

I can confirm that it is Sutton Council's understanding that the above-mentioned Act remains in force and the obligation has not been removed or over-ridden as a result of the Water Industry Act 1991 or indeed any other legislation. The Council has taken legal advice which confirms that it holds the power but not a duty to enforce this legislation. However, the Council also understands that whilst SES Water has a requirement to soften, the reduction or cessation of softening does not affect the wholesomeness of the water supplied. The Company reduces or stops softening if it poses a potential risk to the safety of water because the standards of wholesomeness as set out in Section 220 of the Water Industry Act 1991 override any other requirement, including softening to any prescribed level.

Sutton Council is aware that SES Water has proposed to Ofwat as part of the representation on their business plan draft determination that, for the next five-year regulatory period from 1 April 2020, it will continue to soften water in the Sutton area to a level of no more than 80 mg/l Ca on average. This is a less stringent level than stipulated in the Act, so Ofwat has asked SES Water to seek assurance from Sutton Council that it agrees with the proposed limit.

In considering whether to take enforcement action regarding any breach of the Act, the council would have regard to its enforcement policy which requires that when considering what action should be taken, it will look to:

- be proportionate to the nature of the offence and the harm caused;
- change the behaviour of the offender;
- eliminate any financial gain or benefit from non-compliance;
- address the harm caused by regulatory non-compliance, where appropriate;



- deter future non-compliance;
- be responsive and consider what is appropriate for the particular offender and regulatory issue.

In assessing what enforcement action is necessary and proportionate, consideration will be given to:

- the seriousness of compliance failure;
- the past performance and current practice of the business;
- the risks being controlled;
- legal, official or professional guidance.

In light of this approach, the council has sought advice from the Drinking Water Inspectorate on the following matters:

1. Whether by not complying with the obligations regarding softening there is any risk to public health.
2. Whether by not complying with the softening obligations in the act the water is in anyway unwholesome.
3. Whether the current levels of water hardness within the water supplied by SES Water are comparable with regards to other water suppliers in the UK.
4. Any other factors which may be of relevance to our residents with regards to non-compliance with the act.

In response, the DWI stated:

"There is no regulatory limit for hardness in drinking water, and hard water is not a risk to human health (with reference to the *World Health Organisation Guidelines for Drinking Water Quality*). Therefore the answer to question 1 is that there is no risk to public health if the company fails to soften the water supply in accordance with the conditions specified in the legislation that you refer to.

To answer question 2, because there is no limit specified for hardness in the Water Supply (Water Quality) regulations 2016 (as amended), that apply to water supplied for human consumption in England, cessation of or a reduction in artificial softening would not cause water supplied to consumers to be unwholesome, in contravention of the requirements of regulation 4(2) of these Regulations.

From information provided to the Inspectorate by SES Water, the company operates its softening plants to achieve a target total hardness of 80mg/l as calcium, which is equivalent to approximately 14 degrees of hardness on the Clarke's scale, slightly higher than the level specified in the Act to which you refer. This level of hardness is considered to be within the range of hardness values categorised as moderately hard. Without softening in place, the hardness of water supplied from Woodmansterne works is around 130mg/l as Ca (22.6 Clarke's degrees) – which falls within the range classified as hard water."

The DWI was unable to answer Q3, because hardness is no longer a regulatory compliance parameter, so it does not routinely collect hardness data from samples taken by water companies. However from the council's own research, we are aware of sufficient examples from elsewhere in the country where water is provided to consumers that is harder than both 68.6 and indeed 80 mg/l Ca to be satisfied that this is not a matter of threat to human health. Communities in many parts of England are supplied with hard water, and there is no known association with acute or chronic health effects.

In response to question 4 the DWI stated:

"Some consumers may notice some of these changes to their tap water quality at times when artificial softening is not being carried out in accordance with the local legislation. From information provided by SES Water, the number of consumer contacts received about hardness from consumers supplied from Woodmansterne increased in 2018 when the softening plant was switched off (from an average of about 5



per year for 2013 to 2017, compared with 18 in 2018). The Inspectorate does not have any consumer contact data for 2019 at this point in the year."

Having considered the advice of the DWI and other evidence collated, the council therefore does not believe that it would be proportionate, a good use of council tax payers' money or in the public interest to undertake enforcement action against SES Water for only softening the water in the Sutton supply area to 80mg/l Ca. The council will continue to hold this view until further notice subject to the following conditions:

1. SES Water maintains an average quarterly level of 80mg/l Ca at the Woodmansterne plant (& any other treatment works governed by the Sutton District Waterworks Act 1903).
2. SES Water produces an annual monitoring report for the council which monitors the following matters:
 - performance in relation to levels of water hardness at relevant treatment plants recorded in previous 12 months;
 - performance in customer satisfaction by reference to levels of contacts relating to water hardness recorded in previous 12 months, including any proposed regulatory financial penalties in relation to its agreed performance commitment;
 - business plans or proposals for the maintenance and/or improvement in the treatment of water hardness;
3. Should the water hardness level be higher than a quarterly average of 80mg/l Ca during any given 12 month period, the Council will seek an explanation of mitigating factors and if necessary, an action plan from SES Water for rectifying this deficiency in an acceptable timescale.
4. This decision is not intended to fetter the future exercise of the Council's powers under the Act, and the Council reserves its position as to future enforcement in accordance with the terms of the Act, and will (save in the case of emergency or other urgent reason) give SES Water not less than 3 months' notice of any proposed enforcement action.

You are welcome to share this correspondence with Ofwat and trust it is adequate for their purposes.

Yours Sincerely,



Assistant Director - Highways, Transport, and Regulatory Services
RB Kingston and LB Sutton



From: [REDACTED]
Sent: 11 August 2023 15:24
To: Nicola Houlahan
Cc: Rob Baldry
Subject: [EXTERNAL] Re: FOR RESPONSE PLEASE by 28 July: SES Water - Water Softening Performance - Sutton District Waterworks Act 1903

Dear Nicola,

Apologies for the delay in responding to your emails.

As none of the terms that were agreed with [REDACTED] have changed I can confirm that you have Sutton's continued support for your on-going approach to water softening.

If you require anything further please do not hesitate to contact me.

Kind regards,

[REDACTED]

[REDACTED]

Assistant Director of Highways, Transportation and Regulatory Services
London Borough of Sutton
Civic Offices, St. Nicholas Way, Sutton SM1 1EA

[REDACTED]

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On Tue, 8 Aug 2023 at 14:09, Nicola Houlahan <Nicola.Houlahan@seswater.co.uk> wrote:

Dear [REDACTED]

Further to my email of 3 July, I would appreciate it if you could acknowledge our request and advise whether London Borough of Sutton will be in a position to provide written support for our future operational plans for softening, as outlined below. We have to submit our Business Plan to Ofwat on 2 October and are currently finalising the drafting of our Plan and seeking assurance of the planned approach. Confirmation of your position ahead of that submission would be very helpful.



If you require any further explanation, or would like to discuss, I would be happy to arrange a call or a meeting.

Regards

Nicola Houlahan

Nicola Houlahan
Quality and Compliance Director
SES Water
Tel: 01737 785880 (Direct)
Tel: 01737 772000 (Switchboard)
Tel: 07801 755566 (Mobile)

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From: Nicola Houlahan
Sent: Monday, July 3, 2023 6:03 PM
To: [REDACTED]
Cc: Rob Baldry <Rob.Baldry@seswater.co.uk>
Subject: FOR RESPONSE PLEASE by 28 July: SES Water - Water Softening Performance - Sutton District Waterworks Act 1903

Dear [REDACTED]

SES Water - Water Softening Performance Commitment - Sutton District Waterworks Act 1903

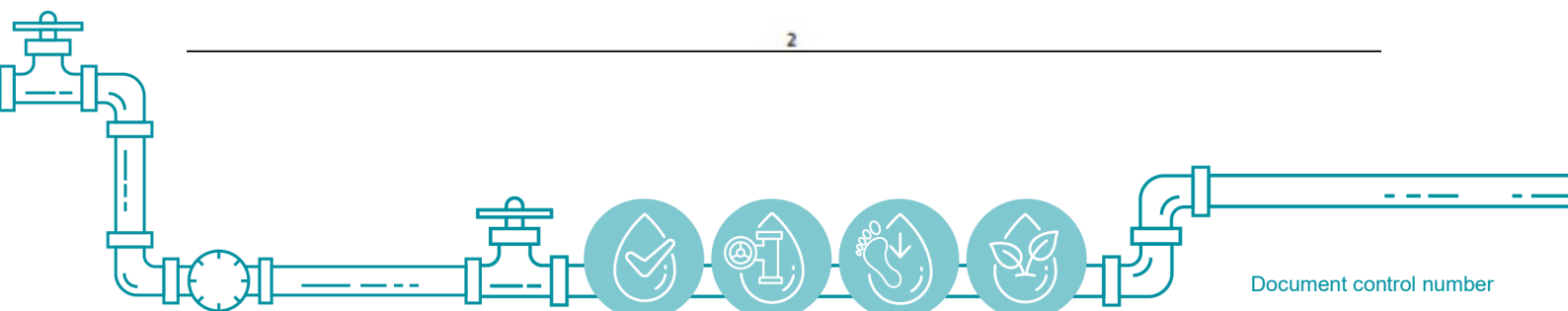
Earlier this year you were sent a copy of SES Water's softening performance overview report for 2022. We produce this report annually to ensure London Borough of Sutton (LBS) are aware of our on-going softening performance, and the impact to customers served.

We previously engaged with LBS to seek support for our approach to water softening as part of our representation to Ofwat for our Business Plan submission for April 2020 to March 2025.

Correspondence from October 2019, from [REDACTED] the previous Assistant Director of Highways, Transportation and Regulatory Services at LBS, is attached along with a briefing document that we shared with LBS at the time. Following our meetings and correspondence in 2019, LBS agreed to support our proposed approach to adopt a performance commitment (PC) for softening with an upper limit for water hardness of 80 mg/l (as Calcium), and the council stated that it would continue to hold that view until further notice subject to:

1. SES Water maintaining an average quarterly level of 80 mg/l Ca at Woodmansterne (and Cheam)
2. SES Water producing an annual monitoring report (to include hardness performance, customer satisfaction (hardness contacts) and financial penalties incurred)
3. SES to provide an explanation of why any quarterly average exceeds 80 mg/l Ca
4. LBS reserving the right to future enforcement, subject to issuing us with 3 months notice.

(It should be noted that we proposed to adopt a quarterly average measurement for hardness, but in their final determination, Ofwat insisted on a PC based on an average determined over two-week intervals. Both quarterly performance and the formal PC measurement are included in our annual report that we send you).



We are now in the process of preparing our Business Plan Submission for the period April 2025 to March 2030 and are planning to continue to soften our water supplies to the same maximum upper limit for hardness that we agreed for the current five-year period.

The view of LBS, as a key stakeholder, was important in agreeing a PC with our financial regulator, Ofwat, that allows us to plan to deliver water with a hardness above the statutory target set in the Sutton District Waterworks Act 1903. Whilst we are not proposing to change our approach for the next five-year period, and we are happy to continue to report to LBS as currently, we would like LBS to confirm that we have their on-going support for this approach and that the council continue to hold the view outlined above and within the letter of October 2019.

We would be very grateful to receive written confirmation of your support for this on-going approach, ideally by 28 July 2023. In addition, please confirm that you are happy for us to share any written correspondence you provide to us with Ofwat, as part of our representation to them on our water softening proposals. Alternatively, we would be happy to host a meeting, or attend your offices, to discuss the matter in person.

Regards

Nicola Houlahan

Nicola Houlahan
Quality and Compliance Director
SES Water
Tel: 01737 785880 (Direct)
Tel: 01737 772000 (Switchboard)
Tel: 07801 755566 (Mobile)

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