A large circular graphic is centered on the page. It consists of a white circle containing the text, surrounded by a teal ring with various white icons. The icons include: a person with a headset, a cloud with circuit lines, a 'net zero' icon with a leaf, a checkmark in a circle, a target, a person at a presentation board, a hand holding a water drop, a person with an upward arrow, a leaf, a person silhouette, a water drop with a checkmark, a glass of water, and a hand holding a water drop. The background of the entire page is a gradient from dark blue at the top to teal at the bottom, with a white wavy line separating the top header from the main content area.

**APPENDIX  
SES034  
OFWAT LETTER –  
LTDS MEETING  
FEEDBACK**

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A. Memo on response to Ofwat LTDS “Early Review” letter

## SES Water

29 September 2023

### PR24 - Memo on response to Ofwat LTDS “early review” letter

Following our meeting with Ofwat in January 2023, we received the attached letter from Ofwat on 3 April 2023 providing an early view of the LTDS document from SES Water. A number of comments and recommendations were raised as noted below – with management response (in conjunction with submission of our final LTDS) provided in this follow-up memo:

#### 1.1 Ambition

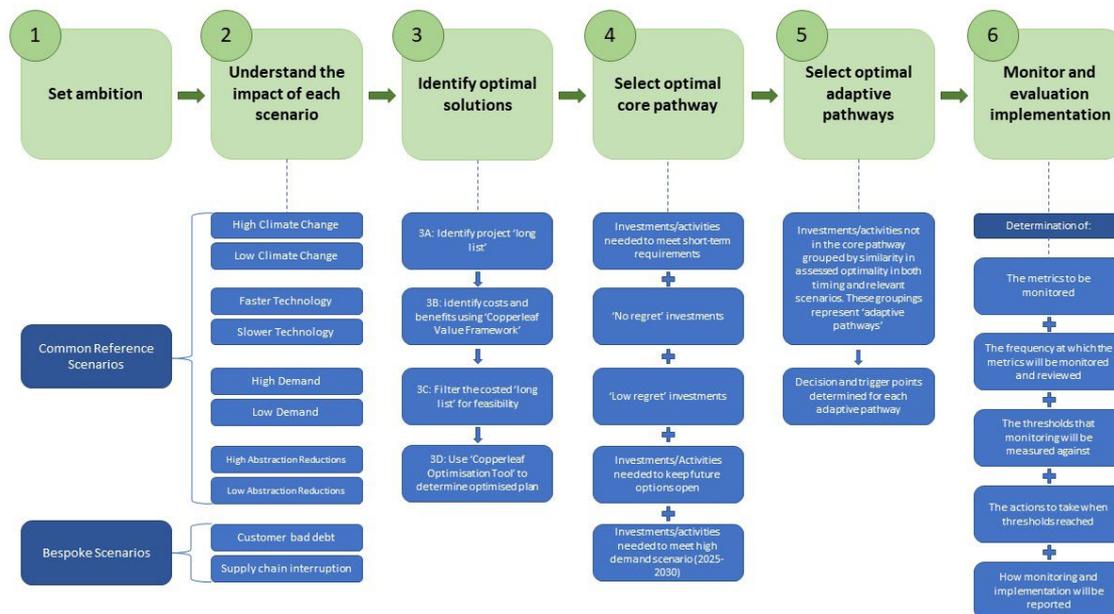
- 1.1.1 **Ofwat:** Your presentation demonstrated a good understanding of how to set your ambition in line with our guidance. In line with that, in your PR24 submission we expect you to use the factors listed in our guidance to inform your ambition
- 1.1.2 **SES Water response:** agreed and addressed – in our final PR24 BP submission we have continued to utilise the factors listed in Ofwat guidance to inform our ambition which has been built into both our final LTDS and PR24 BP.

#### 1.2 Core and alternative pathways

- 1.2.1 **Ofwat:** We did not see sufficient and convincing evidence that you are developing a core pathway in line with our definition. In particular, we are concerned that you are planning to use the 'core pathway' from your dWRMP which does not align with the definition set out in our guidance. Your dWRMP combines reference scenarios for testing which risks producing a very low probability scenario to justify investment against. In your PR24 submission, the core pathway should set out low-regret investments, ie those that can deliver outcomes efficiently under a wide range of plausible scenarios or need to be undertaken to meet short-term requirements. It should also include the investment required to keep future options open or is required to minimise the cost of future options.
- 1.2.2 **SES Water response:** We reviewed and revised the process we planned to use to derive our core pathway to ensure we were consistent with the guidance. A full description of the process we have used is set out in Section C of Appendix SES001 (LTDS Development Process), and summarised in the figure below:

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Figure 1: Our LTDS development process



Source: SES Water

- 1.2.3 **Ofwat:** In your PR24 submission, you should clearly explain how you have identified and prioritised low-regret investment. This includes showing that the selected investment, and the timing of that investment, is optimal given a wide range of plausible scenarios and their likely occurrence. Where possible, low-regret investments should be flexible and modular.
- 1.2.4 **SES Water response:** Chapter 4 of our LTDS presents our core pathway. It sets out our no and low regrets investment, what is driving that investment and when it is needed. Our core pathway has been derived through the process outlined above, which included using the Copperleaf tool to carry out scenario testing and identify our optimised plan. We have prioritised our investment plan accordingly and explained our options assessment to demonstrate it delivers best value.
- 1.2.5 **Ofwat:** Your presentation demonstrated a good understanding of how you are formulating alternative pathways in line with our guidance. In your long-term delivery strategy, you should clearly describe your decision and trigger points and explain how you have decided on the optimal timing of these points. This is particularly important if you plan to request enhancement expenditure at PR24 to support one or more of these pathways, in which case you should present compelling evidence and align with our key principles for enhancement funding for preparatory work.
- 1.2.6 **SES Water response :** Chapter 5 of our LTDS document sets out details of our alternative adaptive pathways, including the relevant decision points and trigger points for each alternative adaptive pathway (and how we have derived them), our assessments of the likelihood of each alternative adaptive pathway being triggered, and our associated monitoring plans that will determine if the relevant trigger criteria are reached.

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#### 1.3 Scenario testing

- 1.3.1 **Ofwat:** You should test each of the common reference scenarios to inform your strategy. Scenario testing is important to enable you to evidence that you have identified low-regret investment and that you are able to efficiently meet long-term outcomes in a range of plausible futures. In your PR24 submission, we expect you to clearly set out the estimated impact of each individual reference scenario over the full period from 2025 to 2050.
- 1.3.2 **SES Water response:** We have tested each common reference scenarios to inform our strategy and derive the impact of each individual reference scenario over the full period from 2025 to 2050. Full details of this process are set out in Appendix SES001 (LTDS Development Process).
- 1.3.3 **Ofwat:** We expect you to use scenario testing to inform the development of your strategy, including the selection and timing of activities in your core pathway and the development of alternative pathways. In your PR24 submission, you should also demonstrate the sensitivity of your proposed enhancement investments to future needs and uncertainty.
- 1.3.4 **SES Water response:** As set out in our LTDS, and the associated appendices (particularly Appendix SES001 (LTDS Development Process)), we have used scenario testing to inform the development of our strategy, including the selection and timing of activities in our core pathway and the development of alternative pathways. Our LTDS document sets out the sensitivity of our proposed enhancement investments to future needs and uncertainty. See, in particular, Chapter 6 of our LTDS document.
- 1.3.5 **Ofwat:** It is essential that only plausible scenarios are used to develop the core and alternative pathways. You explained in your presentation that you are considering testing wider scenarios on bad debt and supply chain/labour force disruption, and that these would potentially drive additional investment in your core pathway. For 2025-30, we require Board assurances on deliverability and supply chain availability including that the supply chain risk is manageable.
- 1.3.6 **SES Water response:** confirmed - the results of modeling the bespoke scenarios are set out in Section C of Chapter 2 of our LTDS document. Our analysis showed that our core pathway was sufficient to meet both of the bespoke scenarios. With respect to deliverability and supply chain availability, refer to our Quality & Ambition Assessment for detail and further cross-references to our satisfactory assessment of these areas with respect to PR24, in addition to the Board’s assurance work on deliverability noted in Chapter 11 of the business plan. It should be noted that while it was considered appropriate to test these bespoke scenarios in a long term scenario planning exercise this did not infer a concern with respect to that deliverability or supply chain risk undermining the delivery of the PR24 plan.
- 1.3.7 **Ofwat:** Wider scenarios should be measurable factors with clear and observable metrics that can be used to define decision and trigger points. We will expect you to clearly demonstrate in your business plan that your proposed investments are required across a wide range of plausible scenarios. Where a wider scenario is driving an alternative pathway, based on potential changes in local or company-specific factors, you should clearly set out the

## SES Water

29 September 2023

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associated decision and trigger points, and explain how you will monitor, review and report the relevant metrics over time.

- 1.3.8 **SES Water response:** The results of modeling the bespoke scenarios are set out in Section C of Chapter 2 of our LTDS document. Our analysis showed that our core pathway was sufficient to meet both of the bespoke scenarios, albeit by a narrow margin.
- 1.3.9 **Ofwat:** We saw only limited evidence that you are testing the common reference scenarios for technology in line with our guidance. We expect you to use the technology scenarios to test the sensitivity of options to different futures and justify the optimal timing and sequencing of activities in your strategy. The scenarios describe futures where the adoption of the listed technologies becomes cost-effective at different dates, as a result of technology developing faster or slower than expected. The adoption of the listed technologies should be assumed to reduce the costs of meeting long-term outcomes.
- 1.3.10 **SES Water response:** We have updated and summarised our testing and assessments of the common reference scenarios including the faster and slower technology scenario in our LTDS 2025 to 2050 document, and in more detail within our Appendix SES003 – LTDS Future Scenarios Detailed Report. We note that Ofwat’s guidance between the adverse and benign scenarios is not about if technological advancements will be undertaken but when. We envisage rapid technology roll outs as being the most beneficial to our operations and, therefore, to our customers and our testing and rationale for this is demonstrated in our plan.
- 1.3.11 **Ofwat:** In your PR24 submission you should clearly set out all assumptions you are making about the impact of the scenario. If there are specific technologies where you consider it implausible that their adoption could be cost-effective in your region by the dates in the scenarios, you should clearly explain the reasons why. You should also consider the impact of a wider range of technological developments, beyond those set out in the reference scenarios.
- 1.3.12 **SES Water response:** As referenced in our response 1.3.10 (above), we have described and demonstrated our understanding and interpretation of the scenarios with our LTDS and business plan, including where necessary in our enhancement case appendix documents. In addition, we have provided our digital strategy (Appendix SES042 – Digital, Data and Cyber Security Strategy) which also describes our specific technology plans and the advantages relative to our track record and past performance, future targets, the technology scenarios and wider planning frameworks. Our biggest example is in our proposed expenditure and enhancement costs for technology described in Appendix SES009 – Enhancement Case – Smart Water Customer Experience, within which we describe in detail how our proposals account for all the common scenarios. In addition, we assess our options to deliver each component of the proposed enhancement and assess our options for combining the components in different ways, including the timing of delivery and the benefits and disbenefits, including cost effectiveness.

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#### 1.4 Base expenditure

- 1.4.1 **Ofwat:** We saw only limited evidence that you are considering long-term performance improvements from base expenditure. It is important that you develop your own forecasts of improvements expected from base expenditure, and clearly set these out for each of the outcomes and metrics that make up your ambition. Enhancement investments should build on these activities to meet your long-term ambition. We expect you to challenge yourself to deliver stretching levels of performance from your base expenditure allowance, and to reflect this in your long-term delivery strategy.
- 1.4.2 **SES Water response:** We have undertaken a bottom-up analysis to develop forecasts of the improvements that we expect to make from base expenditure over AMP8 and subsequent periods of our LTDS. In summary, this has involved establishing what performance improvements are attributed to individual activities that we will deliver in our core investment pathway both from base and enhancement expenditure. The stretching performance commitment level glidepaths we will deliver in AMP8 and subsequent periods of the LTDs and ‘what base buys’ in each of those periods, is set out in Chapter 6 – The outcomes we will deliver of our PR24 business plan and our LTDS document. Appendix SES005A to our business plan sets out the approach that we have taken to develop the stretching levels of performance improvement from base expenditure.
- 1.4.3 **Ofwat:** As set out in our business plan table guidance, if you are considering alternative glidepaths for different performance levels and pace of delivery, you should present a 'most likely' view of the performance glidepaths in the business plan tables. This will allow you to present a single adaptive strategy, in line with our minimum expectations, rather than multiple alternate plans. The accompanying narrative in the long-term delivery strategy should then explain how this would change under different scenarios and pathways.
- 1.4.4 **SES Water response:** confirmed – We have presented a single adaptive strategy, in line with Ofwat’s expectations, rather than multiple alternate plans. Our adaptive strategy is set out in our LTDS document and the associated appendices.

#### 1.5 Engagement

- 1.5.1 **Ofwat:** We are encouraged to see that customer engagement is informing your ambition and the selection and sequencing of key investments. In your PR24 submission, you should clearly explain how your strategy has been informed by customer preferences and provide sufficient and convincing evidence that your customer engagement activities meet our standards for research, challenge and assurance. As part of our ambition assessment, we will consider how far you have engaged meaningfully with your customers on their preferences and affordability concerns to inform your PR24 submission.
- 1.5.2 **SES Water response:** We have used customer engagement to inform our ambition and the development of our strategy. We conducted research to understand our customers’ long-term priorities and presented them with choices in a range of investment areas where there were genuine choices about the pace and sequencing of investment. This included leakage, net-zero, lead, smart metering and environmental enhancement. We have reflected their priorities in our LTDS, which has in turn influenced our PR24 business plan. For example, we

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have increased our long-term ambition to reduce leakage by more than 62% by 2050 in line with our customers’ expectations. Over the next five years we will focus on active leakage control, pressure optimisation and customer-side leakage as together these present the most cost-efficient strategy, helping to keep bills affordable over the next 5 years. Beyond 2030, we will begin an enhanced programme of mains replacement to deliver sustainable reductions to leakage and help further reduce mains bursts and supply interruptions.

- 1.5.3 **Ofwat:** We are pleased to see that you are engaging your Board and senior management in the development of your strategy. In your PR24 submission, we expect your Board to provide an assurance statement that explains how it has challenged and satisfied itself that the strategy is the best it can be.
- 1.5.4 **SES Water response:** Confirmed – the Board has continued to be heavily involved in the review and assurance of the LTDS and included in the Board Assurance statement is how the Board challenged and satisfied itself that the strategy is the best it could be.



B. Ofwat “Early Review” Letter from January 2023 LTDS Meeting

Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
11 Westferry Circus, Canary Wharf, London E14 4HD

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By email

3 April 2023

Dear Paul,

## **Ofwat feedback on your development meeting for long-term delivery strategies**

We are writing to provide feedback on your recent presentation to us, which set out how you are developing your long-term delivery strategy for PR24.

We would like to thank you for all the hard work and effort that went into your presentation. We have been encouraged that our ambition to increase the focus on the long-term is widely shared across the sector.

Long-term delivery strategies should represent a shift towards a stronger focus on the long-term needs of customers and the environment, and improve decisions about how to deliver long-term outcomes. They should bring together outputs from existing planning frameworks, such as WRMPs and DWMPs, along with planned activities in other areas of the business, into a consistent and holistic strategy. We expect the strategies to form a key part of the evidence to justify the scale and timing of need for enhancement expenditure at PR24, and to provide early sight of future investments.

This letter provides feedback on your presentation and how you are developing your strategy in line with our final guidance on long-term delivery strategies.<sup>1</sup> In particular, we have focused on the following key elements:

- setting your long-term ambition;
- forming core and alternative adaptive pathways;
- using scenario testing to inform these pathways;
- considering how improvements from base expenditure will contribute to the strategy; and
- engaging with customers, stakeholders, Board, and senior management.

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<sup>1</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022.

We will assess the quality of your long-term delivery strategy through the PR24 quality and ambition assessment (QAA). Our assessment will be based on whether your strategy has been developed in line with our guidance and has taken into account any feedback provided.

We want to see companies embedding a long-term mindset across their business. We expect the strategies to provide an important and enduring framework for a stronger long-term focus in the sector. This will require culture change and a focus on making the right decisions given long-term uncertainty and competing short-term priorities.

This letter should be read alongside our overarching reflections on the development meetings, which will be published shortly. All our comments in this letter and our overarching reflections are without prejudice to any subsequent decisions that we make during PR24 in connection with your business plan.

## Feedback on your presentation

### 1.1 Ambition

**Your presentation demonstrated a good understanding of how to set your ambition in line with our guidance.** In line with that, in your PR24 submission we expect you to use the factors listed in our guidance to inform your ambition.<sup>2</sup>

### 1.2 Core and alternative pathways

**We did not see sufficient and convincing evidence that you are developing a core pathway in line with our definition.**<sup>3</sup> In particular, we are concerned that you are planning to use the 'core pathway' from your dWRMP which does not align with the definition set out in our guidance. Your dWRMP combines reference scenarios for testing which risks producing a very low probability scenario to justify investment against. In your PR24 submission, the core pathway should set out low-regret investments, ie those that can deliver outcomes efficiently under a wide range of plausible scenarios, or need to be undertaken to meet short-term requirements. It should also include investment required to keep future options open or is required to minimise the cost of future options.

**In your PR24 submission, you should clearly explain how you have identified and prioritised low-regret investment.** This includes showing that the selected investment, and the timing of that investment, is optimal given a wide range of plausible scenarios and

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<sup>2</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022, section 3.2, pp. 14–16.

<sup>3</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022, section 3.3.2, pp. 21–22.

their likely occurrence. Where possible, low-regret investments should be flexible and modular.

**Your presentation demonstrated a good understanding of how you are formulating alternative pathways in line with our guidance.** In your long-term delivery strategy, you should clearly describe your decision and trigger points and explain how you have decided on the optimal timing of these points. This is particularly important if you plan to request enhancement expenditure at PR24 to support one or more of these pathways, in which case you should present compelling evidence and align with our key principles for enhancement funding for preparatory work.<sup>4</sup>

### 1.3 Scenario testing

**You should test each of the common reference scenarios to inform your strategy.** Scenario testing is important to enable you to evidence that you have identified low-regret investment and that you are able to efficiently meet long-term outcomes in a range of plausible futures. In your PR24 submission, we expect you to clearly set out the estimated impact of each individual reference scenario over the full period from 2025 to 2050.

**We expect you to use scenario testing to inform the development of your strategy,** including the selection and timing of activities in your core pathway and the development of alternative pathways. In your PR24 submission, you should also demonstrate the sensitivity of your proposed enhancement investments to future needs and uncertainty.

**It is essential that only plausible scenarios are used to develop the core and alternative pathways.**<sup>5</sup> You explained in your presentation that you are considering testing wider scenarios on bad debt and supply chain/labour force disruption, and that these would potentially drive additional investment in your core pathway. For 2025–30, we require Board assurances on deliverability and supply chain availability including that the supply chain risk is manageable.<sup>6</sup>

Wider scenarios should be measurable factors with clear and observable metrics that can be used to define decision and trigger points. We will expect you to clearly demonstrate in your business plan that your proposed investments are required across a wide range of plausible scenarios. Where a wider scenario is driving an alternative pathway, based on potential changes in local or company-specific factors, you should clearly set out the associated

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<sup>4</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24, Appendix 9 – Setting expenditure allowances](#)', December 2022, pp. 112–113.

<sup>5</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022, section 4.1, pp. 34–35.

<sup>6</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24, Appendix 9 – Setting expenditure allowances](#)', December 2022, p. 122.

decision and trigger points, and explain how you will monitor, review and report the relevant metrics over time.

**We saw only limited evidence that you are testing the common reference scenarios for technology in line with our guidance.** We expect you to use the technology scenarios to test the sensitivity of options to different futures and justify the optimal timing and sequencing of activities in your strategy. The scenarios describe futures where the adoption of the listed technologies becomes cost-effective at different dates, as a result of technology developing faster or slower than expected.<sup>7</sup> The adoption of the listed technologies should be assumed to reduce the costs of meeting long-term outcomes.

In your PR24 submission you should clearly set out all assumptions you are making about the impact of the scenario. If there are specific technologies where you consider it implausible that their adoption could be cost-effective in your region by the dates in the scenarios, you should clearly explain the reasons why. You should also consider the impact of a wider range of technological developments, beyond those set out in the reference scenarios.

## 1.4 Base expenditure

**We saw only limited evidence that you are considering long-term performance improvements from base expenditure.** It is important that you develop your own forecasts of improvements expected from base expenditure, and clearly set these out for each of the outcomes and metrics that make up your ambition. Enhancement investments should build on these activities to meet your long-term ambition. We expect you to challenge yourself to deliver stretching levels of performance from your base expenditure allowance, and to reflect this in your long-term delivery strategy.

As set out in our business plan table guidance, if you are considering alternative glidepaths for different performance levels and pace of delivery, you should present a 'most likely' view of the performance glidepaths in the business plan tables.<sup>8</sup> This will allow you to present a single adaptive strategy, in line with our minimum expectations, rather than multiple alternate plans.<sup>9</sup> The accompanying narrative in the long-term delivery strategy should then explain how this would change under different scenarios and pathways.

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<sup>7</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022, section 4.2.2, pp. 37-41.

<sup>8</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24. Submission table guidance. Section 9: Long-term strategies](#)', February 2023, p. 7.

<sup>9</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24](#)', December 2022, Table 11.2, p. 155.

## 1.5 Engagement

**We are encouraged to see that customer engagement is informing your ambition and the selection and sequencing of key investments.** In your PR24 submission, you should clearly explain how your strategy has been informed by customer preferences, and provide sufficient and convincing evidence that your customer engagement activities meet our standards for research, challenge and assurance. As part of our ambition assessment we will consider how far you have engaged meaningfully with your customers on their preferences and affordability concerns to inform your PR24 submission.<sup>10</sup>

**We are pleased to see that you are engaging your Board and senior management in the development of your strategy.** In your PR24 submission, we expect your Board to provide an assurance statement that explains how it has challenged and satisfied itself that the strategy is the best it can be.<sup>11</sup>

We hope you find our feedback helpful, and we look forward to receiving your PR24 submission in October 2023.

Yours sincerely



**Thea Hutchinson**  
Director, PR24

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<sup>10</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24](#)', December 2022, p. 160.

<sup>11</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022, section 3.6, pp. 32-33.