south east water

Sustainable Finance Report

For the year ending 31 March 2023

Our Purpose

To provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive.

Our Business*

We supply top quality drinking water to 2.3 million customers in the south east of England. Through our network of 9,000 miles of pipes, we deliver around 542 million litres of water every day. The skill and expertise of our colleagues ensures our customers' water meets the highest of standards.

Our Area

We operate our supply system across three operational regions:

South East Water is made up of three operating areas – the Western region, Sussex and Kent.

Each of our regions has specific characteristics determined by different river catchments, geology, topography, ecology, land use and importantly history. The investment needed to maintain a resilient supply system will therefore be different in each region.

*The values quoted are for the year ended 31 March 2023

Our Vision

Our vision is to be the water company people want to be supplied by and want to work for. Everything we do is underpinned by technical excellence.

We supply around 542 million litres of water a day

that's how much water we supply to around 2.3 million people

9,000 miles of underground pipes

that's how we get fresh drinking water direct to your tap

1,061 employees

that's how we make sure your water supply runs 24 hours a day, 365 days a year

206.6 kgCO_2e/Ml

that's the level of Greenhouse gas emissions we emit across the company, to supply water to your tap

Find out more
southeastwater.co.uk/businessplan

Contents

Online interim report
Read our Condensed Group Financial Statements for the six months ended 30 September 2023 online:
southeastwater.co.uk/financialreports

Basis of South East Water's Sustainable Finance Framework

The ICMA Green Bond Principles, and LMA Green Loan Principles (together "Green Finance") are each a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the green finance market by clarifying the approach for Green Finance issuance. In alignment with the ICMA Green Bond Principles 2018, and LMA Green Loan Principles 2018, South East Water's Green Finance Framework is presented through the following key pillars:

1. Use of proceeds

2. Process for project evaluation and selection

3. Management of proceeds

4. Reporting

How we have used sustainable finance

We report our expenditure against the Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Green Loan Principles.

All capital expenditure follows our governance framework. The majority of capital expenditure which we undertake is capable of being an eligible sustainable project for inclusion in a sustainable project category, outlined in the principles set out, being related to: "sustainable water and wastewater management including sustainable infrastructure for clean drinking water". Our Sustainable Finance Framework has been reviewed by Vigeo Eiris which has issued a Second Party Opinion. We also engaged Atkins to perform limited assurance on our 2022/23 sustainable investment.

In 2019 we issued two tranches of sustainable finance: a £175 million private placement and a £120 million bank loan. The debt supported our investment in our eligible sustainable capital programme over the last regulatory period as follows:

Sustainable finance category	Definition	2015 to 2020 Investment £m	Sustainable finance	Drawdown date	Amount (£'m)
Water demand-side management and customer-side growth	All activities that reduce the amount of water demand, both from customers and other sources, such as leakage. Growth in the region from new housing – South East Water sees approx. 8,000 new properties each year.	182.67	Fixed private placement loan	Sep 2020	100
Water supply schemes	New water schemes that align with the continued water demand from property growth in the region (outside of company control).	45.35	Fixed rate private placement loan		75
Water quality	Schemes to detect, treat and flush water to remove water contaminants.	18.48	Bank loan		120
Raw water environmental Works	Outputs developed by the Environment Agency and Natural England and approved by Defra.	16.12			
Capital maintenance	Replacement and enhancement on a proactive basis of existing assets.	264.92			
Resilience	To be resilient to all events including operational and severe weather (snow, rain, drought).	1.54			
Eligible expenditure		**529.08**	**Total sustainable finance**		**295**

How we have used sustainable finance continued

The balance of eligible expenditure exceeds the amount of sustainable finance investment and there are no unallocated proceeds.

In the 2022/23 financial year we invested further in eligible expenditure which can be allocated against future long-term finance:

Sustainable finance category	Definition	2022to 2023 Investment £m
Water demand-side management and customer-side growth	All activities that reduce the amount of water demand, both from customers and other sources, such as leakage. Growth in the region from new housing – South East Water sees approx. 8,000 new properties each year.	22.46
Water supply schemes	New water schemes that align with the continued water demand from property growth in the region (outside of company control).	4.68
Water quality	Schemes to detect, treat and flush water to remove water contaminants.	2.71
Raw water environmental Works	Outputs developed by the Environment Agency and Natural England and approved by Defra.	9.37
Capital maintenance	Replacement and enhancement on a proactive basis of existing assets.	53.44
Resilience	To be resilient to all events including operational and severe weather (snow, rain, drought).	2.77
Eligible expenditure		**95.43**

What are our reporting indicators and our track record on these?

We have summarised below our performance across our sustainability indicators:

Summary table of our indicators for 2022/23

Indicator	Measure	2022/23
Reduction in water consumption	Per capita consumption (litres per person per day)	150.3
Leakage level	Million litres leaked per day (Mld)	102.0
Carbon emissions per mega litre	$kgCO_2e$ per ML	206.6
Abstraction at low flows at environmentally sensitives sites	Mega litres per day (Mld)	Minus 79

Reduction in water consumption

Set against the backdrop of making sure there is enough water available to both to maintain and enhance the natural environment while also serving an increasing population, this incentive involves customers playing their part in ensuring there is enough water for all in the future.

By 2025, we are targeting the annual amount of water used by each of our customers to reduce from 143.1 litres a day in 2019/20 to 131.5 litres a day. This is equivalent to our Ofwat target of reducing consumption by 7.6 per cent from our 2019/20 three year average baseline of 144 litres a day.

How have we performed?

During 2022/23 our customers each used an average of 150.3 litres of water a day, a 5.3 per cent reduction on 2021/22 annual performance of 158.6 litres of water a day.

We are working to reduce per capita consumption during 2023/24 to reach our baseline performance target with our ongoing Household Customer Improvement Programme. This programme encompasses five key approaches to delivering our challenging PCC reduction, primarily through behavioural change methods. Our programme includes: understanding our customers through research, behavioural change messaging campaigns, partnerships with local councils or similar stakeholders, water efficiency devices and water efficiency household audits.

Leakage level

We are committed to reducing the amount of water lost to leaks both on our network, and in customers' homes, by 15 per cent between 2020 and 2025 (based on our annual performance).

Leakage is measured in megalitres (1,000,000/ million litres) a day (Ml/d) and we could receive an outperformance payment if we exceed our target, or be required to pay an underperformance penalty if we miss it.

We have two levels of underperformance penalties. The first level of payment is incurred if our performance falls between our target and our 2019/20, three year average performance, of 95.1Ml/d. The second level of payment is incurred if our performance is worse than our 2019/20, three year average performance.

We have a three year average target of 94.9 million litres a day.

Ofwat also require us to deliver a 0.2 per cent reduction on our 2019/20 three year average baseline of 95.1 Ml/d baseline.

During 2022/23 our target was to reduce our annual leakage rate to 94.4 million litres a day and to a three-year average target of 94.7 million litres a day.

How have we performed?

During 2022/23 we experienced significant environmental challenges which means we achieved a year end number of 102.0 million litres a day leakage rate against a target of annual leakage rate of 89.9 million litres a day.

This means that our three-year rolling average leakage has increased from 92.0 Ml/d to 94.5 Ml/d, which equates to a 0.6 per cent reduction on our baseline.

Due to our performance against target, we incur a penalty payment of £0.590 million for 2022/23.

This outcome was delivered against a challenging backdrop of environmental factors and repair and maintenance resources including drought, which seen an increase in network and customer leakage and unaccounted for consumption.

Later in the year, we entered a Freeze/Thaw event that significantly impacted our network leakage and customer leakage. To get back on track we have made changes to the way we deliver work and repairs. We have implemented extra supporting projects to assist us in recovery, however the significant impact of these weather events on leakage means we were unable to meet our leakage target for year (2022/23).

We recognise this performance falls short on our leakage reduction commitment in year.

We have implemented a leakage recovery plan and are delivering an enhancement programme of work to assist our target recovery, which is in addition to our substantial leakage commitment in year.

The recovery is built around accuracy of data and optimisation of systems, which is an approach that will enable us to better manage network leakage, customer leakage, commercial consumption and unaccounted for use.

We will be better placed and more accurate when targeting areas of our network and customer supplies that will benefit most from additional work.

Kg of carbon emissions per megalitre

The water supply process is extremely energy hungry due to the sheer weight of water and the processes involved. Despite this we are committed to the industry's ambition to be Net Zero Carbon for operational emissions by 2030. A routemap to achieve this stretching target has been devised and we are committed to doing what we can right now.

Our performance commitment sets a target to reduce operational greenhouse gas emissions to 81.9 kg of CO_2e per million litres of water put into supply.

How have we performed?

During the 2022/23 period, our greenhouse emissions have increased to 206.6 $kgCO_2e/Ml$, leading to an underperformance against target.

The significant increase in greenhouse gas emissions is a consequence of our energy regrettably no longer being backed by REGO (renewable energy guarantee of origin) certificates. This is due to the volatility of the energy market causing REGO costs to increase by 1,000 per cent in the period – this is in addition to wholesale price increases, which have also been significant for everyone in the UK. Our original funding therefore did not allow for this increase in REGO cost.

We are working hard to mitigate this increase by securing direct green PPAs for our grid energy. Not only do these agreements give confidence to both ourselves and our stakeholders in the source of our renewable electricity, but also that, through our Power Purchase Agreements, we are supporting the expansion of additional renewable energy generation capacity and enabling further decarbonisation at a national level. In addition, we are looking at options to install renewable solar energy on our own sites. Our capacity to do this is limited, given limited land availability, however we are looking at options from ground mounted solar, to canopies, through to floating solar on some of our larger surface water bodies.

We will also continue to increase our use of electric vehicles (EVs), thereby replacing the use of traditional combustion engine vehicles, which has assisted in reducing our operational carbon footprint. We now have 11 EVs included in our vehicle fleet, which are used for a range of business activities, as well as a further eight electric vans on order. The continued use of EVs allows us to understand their benefits, constraints and requirements to develop our fuller EV replacement strategy.

We will monitor our abstraction at low flows at environmentally sensitive sites

We see ourselves as guardians of the environment and a key part of that is maintaining and enhancing the natural world around us. Every day we strike that delicate balance of only taking the water we need while also leaving plenty so the environment can continue to thrive.

There are three points where we abstract water from rivers which are in environmentally sensitive areas – Kingston and Charing in Kent as well as Itchel in Hampshire. We are committed to reducing the amount of water we take from these rivers so we do not over abstract. These sites each have over abstraction trigger points, and we have committed to not reach these trigger points throughout the 2020 to 2025 period. A negative AIM score is what we are trying to achieve, signifying average abstraction is less than the baseline.

How have we performed?

Overall, for the 2022/23 reporting period, we have achieved a negative (good) AIM score.

This is a result of effective management across the year of our sources (Kingston, Charing and Itchel) during low flow or low groundwater level conditions. Kingston was the only site where, due to demands put on the source during AIM periods, the source ended with an AIM performance above zero.

Across the whole company the AIM performance was good with a final score of -79.

Regular monitoring of each AIM site will continue to attempt to improve our performance further.