

21 September 2022

**Letter sent via email**

Rt Hon Ranil Jayawardena MP  
Secretary of State for Environment, Food & Rural Affairs  
Department for Environment, Food & Rural Affairs  
Seacole Building  
2 Marsham Street  
London  
SW1P 4DF

Dear Secretary of State

I wanted to write to firstly congratulate you on your appointment and to thank you for sharing your early thoughts on the water sector, and your five priority areas with us on day 1. It's clear you expect action, not words, in setting the tone for what I trust will be a collaborative and constructive relationship going forward.

Pennon Group plc, is one of only three FSTE listed businesses in the sector, providing clean water and waste water services through businesses and brands across the Greater South West including South West Water and Bristol Water, and this response covers both businesses. We believe that the role of responsible business is one of stewardship for sustainable living, and what we do, and how we do it, is driven by our purpose – supporting the lives of people and the places they love for generations to come.

Stretching from Bristol to Bournemouth, Devon, and Cornwall, including the Isles of Scilly, we operate across a unique topography. Surrounded by water, be it coasts, rivers, reservoirs, lakes or ponds, our network stretches over 45,000 kms, and as Britain's most treasured tourist region, our infrastructure regularly flexes to accommodate a population that swells from 3.5m to over 10m visitors in the summer months. No longer the heartland of the Cornish mining industry, this is also a region, given its dependency on agriculture and tourism, that experiences large socio-economic challenges, with low productivity, low pay, and pockets of deprivation, particularly in urban and coastal areas, resulting in low economic growth.

All this place an even greater responsibility on Pennon, as the largest employer in the region, and for the 3000 colleagues we employ, and I am proud of what they do, each and every day. We take our social stewardship role seriously, supporting the Green Recovery of our region with a £82m investment in environmental and public health projects which improve drinking water quality, the number one priority for our customers. We are currently investing in 2 new state of the art Water Treatment Works for Bournemouth customers, securing resilient drinking water for the long term.

We're also investing in people too, with 500 apprenticeships to 2025 and as a living wage employer. Bristol Water, with a heritage of over 176 years was the first utility to define a formal social contract, setting out a commitment to work in partnership with local schools, community groups, local and regional government, and other civil society organisations to address the challenges facing society. In February, South West Water announced that average bills would reduce at a time when other household bills were rising, and to date have unlocked almost £22m of affordability support, increasing the numbers of customers on social tariffs, with a board pledge to eliminate water poverty by 2025. With the inflationary and power pressures impacting all businesses, we are all too aware of the challenges ahead as we look to mitigate future bill impacts.

Sensitive to our region's natural environment, we maintain that our pioneering catchment management approach developed over 15 years is fundamental to helping unlock the environmental challenge the sector faces using nature-based solutions to improve water quality. In our region, by working in collaboration with land owners and farmers, these schemes lead to improved biodiversity and reduced ammonia and phosphate run-off improving overall river quality. To date, we have schemes in 80% of our catchments, are working with over 1700 farmers, having restored over 95k hectares. Recently, I was delighted to welcome Philip Dunne and members of the Environmental Audit Committee to Argal Reservoir, where in collaboration with the Wildlife Trust, we have developed arable buffers in the surrounding area, protecting the reservoir from harmful runoff.

This is not to say, that there isn't much more for us to do.

I fully accept that we, along with others in the Sector, can and need to do more, for customers and the environment. I would be delighted to meet with you and your team at your earliest convenience to discuss in depth the progress we are making, and our future plans. In the meantime, and as requested, I have outlined our plans to improve environmental performance, water security and resilience in the 5 priority areas; with further details in the enclosed appendix.

### *Improvements in Environmental Performance*

Since being appointed to the role of CEO in 2020, I committed to working closely with the EA to target 4 stars by the end of 2024, recognising that sustainable change, would take time for our region given its sensitive topography. There's no doubt that the Environment Agency's assessment of environmental performance for 2021 through the EPA assessment for South West Water was deeply disappointing. This performance is not where we are now, nor is it where we are going. Our own root cause analysis has evidenced that 75% of pollutions in the region are caused by wet-wipes, fats, oils and greases. We acknowledge there is more to do to engage with customers on such key issues and ensuring our assets perform as intended. Change is already underway, and we have confidence in our plans. Of the seven measures in the EPA, half are focused on reducing pollution impacts. We've already reduced pollutions by a third from a total of 225 in 2020 to 151 in 2021 and we are on track to reduce again in 2022, accepting that any pollution is one too many. Whilst the underlying performance is improving, there will be an inevitable lag in the headline EPA assessment, which may not show headline improvements until 2023's reported performance.

Whilst the EPA is an important set of comparative measures for sector performance, it is not the only measure, and we are also focused on another 33 environmental outcomes. With the largest coastline of any water company in the UK, we achieved 100% bathing water quality for the first time, up from just 28% in the 1990s and where we have invested over £5bn. This has been a huge achievement by everyone across the region, for the region.

### *Storm Overflows and water quality*

Despite being permissible, we do need to fix storm overflows, as a Sector and as a business, as they have become the unacceptable symbol of failing water quality. In response, we have agreed to accelerate the rollout of EDM monitoring to 100% in 2022, a year early, as well as launching WaterFit, with a £330m investment to 2025, focusing on 200 of our assets, reducing spills by 1/3 by 2025, and with plans to achieve zero impact on rivers by 2030. This investment will reflect the highest annual spend South West Water has made in the last decade. Focusing on 2023, improvements will result in average spill numbers falling from 39 in 2021 to 24 in 2023, with a trajectory to 20 to 2025.

At the same time, we have been developing our 25-year plan for the South West region, determined to make the region more resilient to the increased risk of drought and flood, to support sustainable economic and tourism growth, and protect our environment. Our work to date has identified that we will need an additional

removal of 1,470 hectares of surface water, the installation of 510,000m<sup>3</sup> of additional storage, the equivalent of 204 Olympic-sized swimming pools, along with upgrades to over 3,000km of sewers and 112 wastewater treatment works, and we are considering how we can do all of this in the most environmentally and sustainable way.

### *Water Security and future resilience*

Our customers tell us that clean safe drinking water is their number one priority. It's clear however, that we need a more concerted effort to help customers use less and save more, for future generations. Our water saving initiatives collectively, in recent weeks, have reduced demand by as much as 13% at peak times, as we offer water efficiency advice, and products and solutions to help influence behaviours. This has included making water butts free to households affected by the recent temporary hosepipe ban, and we have plans to extend this across the region, given the wider benefits in reducing demand and supporting sustainable urban drainage schemes, in managing flood and pollution risks. Supported by funding community initiatives, new education programmes in schools, we will also advancing our smart metering rollout, as part of our Green recovery initiative.

In response to your challenge, we will accelerate plans to bring new water resources online. These include Stannon Lake, where we have undertaken environmental tests to release extra water, Porth Reservoir and our most recent acquisition, Hawks Tor, a redundant china clay pit, naturally recharging, and we are actively working with the EA to licence. These new resources would potentially equate to anticipated savings next year that today require TUBS to achieve.

In addition to developing new resources, we will also work with the EA to ensure we can recover reservoirs during this coming winter period when environmental impacts can be minimised.

Pennon's acquisition of Bristol Water, joining together resources across the South West, will also complement the work underway in the West Country Water Resources Group, overseen by RAPID (an alliance of 3 regulators – Ofwat, the EA and DWI) and where three projects have successfully passed through the first gate – Poole effluent recycling and transfer, Cheddar 2 reservoir and transfer and Mendip quarries. Combined, this will give us the equivalent of supplying a region the size of Bournemouth. Again, we will now take the opportunity to accelerate these plans.

### *Leakage*

The South West has one of the lowest leakage levels across the sector having turbo charged resources and actions. We've done so by deploying the latest AI and satellite technology, as well as putting more resources on the ground, delivering a 7% reduction last year, and finding and fixing around over 2,000 leaks a month. As we exhaust those on our networks, circa 1/3<sup>rd</sup> of leaks happen on customer properties, and therefore legally their responsibility. We are going above and beyond by offering free find and fix services, with plans to extend this over the next 12 months with ongoing home efficiency visits. Our current plans are on track to deliver a total reduction of 15% across Devon, Cornwall and Bournemouth with a 21% planned reduction in Bristol by 2025.

### *Reward*

Pennon is a company committed to investing in the sector, for the longer term and that's a good thing. Having invested over £9bn since privatisation, our estimation of future investment required to transform and evolve our water recycling system in the South West into one that future generations can be proud of, resilient to the increased risks of drought and flood, to support sustainable economic growth in the region, and protect the environment, will need to be at least the same amount again. We therefore need to be able to attract that level of investment. The vast majority of our shareholders are long term holders predominately UK based pension funds, charities, employees, and customers.

We have a well-established dividend policy, which at its heart is anchored in linking dividends directly with overall company performance. The company performance is assessed in relation to delivery of efficiencies, both expenditure and financing, and outcome delivery, which includes our environmental commitments. Where we fall short on our environmental commitments, these are taken into account.

We believe in having a deeper relationship with our community and in 2020 we launched our Watershare+ scheme, where more and more of our customers have been given a real stake and a say in the company as shareholders. We now have 1 in 16 householders on our share register, with plans for a second issuance to include Bristol Water customers. By evolving our shareholder base, through our innovative and industry leading Watershare+ scheme, I do believe we have the origins of a socially responsible and legitimate business model that can co-exist in a monopoly market, supported by effective regulation. It's customers that hold us to account at public meetings, their own customer AGM, and can vote on all our resolutions, from the election of directors to dividends and executive remuneration. In addition, our WaterShare advisory panel regularly scrutinises our performance, and are supported by members of the EA, CCW and Natural England to provide them with an independent view of our performance.

I recognise how emotive the subject of executive pay can be and consider myself extremely privileged to work and live in the region we serve. Since appointment to the role, I have declined to take any increase in base pay, believing it's right to instead to focus on ensuring our wider employees are fairly rewarded for their contribution and as an accredited living wage employer ensuring that all employees are paid the real living wage or above.

All elements of executive remuneration are aligned to reflect the measures important to our wider stakeholders, overseen by the Chair of the Remuneration Committee and in the public domain. I can also confirm that in respect of last year, no executive received a bonus for pollutions or environmental performance where they didn't meet the targets set by the Remuneration Committee and this will remain the case going forward until performance improves.

I recognise that over the coming weeks there will be much for you to consider and reflect on, and in advance of meeting, wanted to give you a sense of who we are, what we care about, and our commitment to delivering for customers, communities, and the environment. I would like to extend a warm welcome to you to visit the region soon if you are able.

Congratulations once again on your appointment.

Yours sincerely



**Susan Davy**  
**Chief Executive Officer**  
E: REDACTED

Enc: appendix overleaf.

CC: REDACTED