

Sustainable Financing Framework

2020



from
**Southern
Water** 

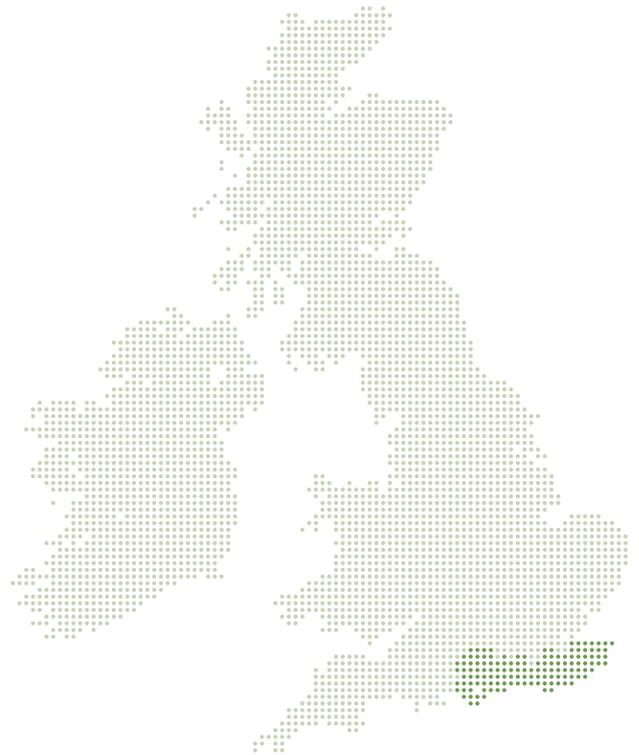
Introduction

We're the eighth largest water and wastewater services company in England and Wales (when comparing turnover between water companies' publicly available accounts).

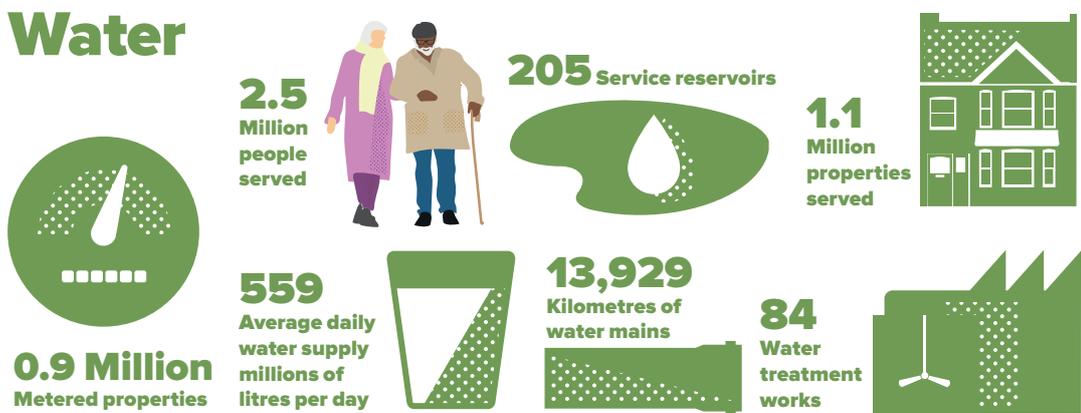
We operate in an area of approximately 10,550 km² throughout Kent, East and West Sussex, Hampshire and the Isle of Wight, and small parts of Wiltshire, Berkshire and Surrey.

We directly employ over 2,300 people, plus an indirect workforce of around 1,700, to provide essential water services to 2.5 million customers and wastewater services to more than 4.7 million customers.

We manage and maintain 13,929 km of water mains and 84 water treatment works as well as managing and maintaining 39,808 km of sewer and 365 sewage treatment sites. On average, every day we supply 559 million litres of water and recycle 739 million litres of wastewater.



Water





A precious resource

As at 31 March 2019, approximately 901,000 occupied properties had their water usage measured by a meter – at 87% of the total occupied properties we supply, this is one of the highest metering rates in the sector.

We were the first company in the UK to introduce Universal Metering, which the Environment Agency described as “a bold and progressive move”. It has cut customer consumption by around 16% since 2010.

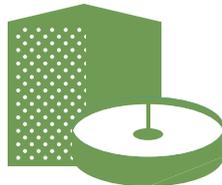
The beaches in our region are one of the South East’s greatest assets and vital to the local economy. In the 2019 bathing season, the Environment Agency tested 83 designated bathing waters – 62 out of the 83 bathing waters achieved ‘excellent’ status. Our region has the highest number of blue flag beaches anywhere in the country.

In “a bold and progressive move”, we were the first company in the UK to introduce Universal Metering

During the first four years of the Asset Management Planning period 2015–20, we invested over £1.2 billion on infrastructure, and are on track to take this to £1.46 billion by March 2020. A large proportion of this investment meets the Eligible Green Project criteria described on page 8.

Wastewater

365
Wastewater treatment works



2.0
Million properties served



739
Average daily recycled wastewater, millions of litres per day



39,808 Kilometres of sewers



3,321
Pumping stations

4.7
Million people served



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During the first four years of the period 2015-20 we have invested over £1.2 billion on infrastructure.”

”



What sustainability means to us

Our relationship with the environment is integral to our business, so ensuring we act in a responsible, sustainable way is essential to how we work.

Our Environmental Policy reflects our ambition – which includes providing sustainable services that prevent pollution and minimise emissions, supporting sustainable development, and protecting the environment by promoting the sustainable, efficient use and conservation of water, energy and natural resources. View the full policy at southernwater.co.uk/environment-policy.

We're committed to managing the impact of climate change and plastic pollution, as well as responsible environmental management, waste management, and integrated water cycle management – find out much more about our approach at southernwater.co.uk/environment.



Our customers use
129 litres
per person, per day –
making them among
the most **Water**
efficient in the **UK**

“

Our relationship with the environment is a vital element of our business. Ensuring we act in a responsible, sustainable way is an essential part of how we work. ”

Sustainable planning

Our 2020–25 Business Plan embodies the commitments and values in our Environmental Policy, across a range of transformational programmes:



Target 100

Reducing average daily consumption to 100 litres per person.



Catchment First

Ensuring catchments are at the heart of decision making and delivery.



Networks 2030

Creating a more resilient supply network for future generations.



Resource Hubs

Transforming wastewater treatment works into community assets.



Sustainable Drainage 2030

Creating capacity across the sewer network.



Target 100

According to Water UK, average consumption nationally is 141 litres per person per day.

Following our Universal Metering Programme our customers use 129 litres per person, per day – making them among the most water efficient in the UK.

Target 100 is our commitment to help customers reduce water consumption to 120 litres per person, per day by 2025, then 100 litres by 2040. We'll do this through education, incentives and behavioural change, shifting society's views to value water more highly.

In addition, we'll increase the rate of water meters in occupied properties from around 87% to 92% in our region's most water-stressed area.

Find out more about our plans for Target 100 at southernwater.co.uk/target100.



Target 100 is
our commitment
 to help customers reduce
 water consumption

Networks 2030

We'll further improve water supply resilience by building new treatment works at Brighton and Thanet, replacing 30 service reservoirs with eight new ones, and investing in an integrated and smarter water network.

Traditionally, we've been leaders in leakage reduction, by installing 10,000 sensors on our network to detect leaks, we aim to reduce leakage by 15% by 2025 (from 105.4 megalitres per day in 2019–20 to 89.6 megalitres per day by 2025).

Our plans also include installing 2,500 smart water-quality sensors by 2030, and replacing 330 km of water mains by 2025.

Other AMP7 initiatives

Following our best ever bathing water results in 2019, we plan to roll out one of our largest-ever environmental programmes – more than £800 million to improve water quality in 537 km of river water, as well as seven additional bathing waters across our region.

Through smart networks, and new ways of working we're aiming to reduce pollution incidents by 40% by 2025 (from a 2016 baseline).

We're also working towards a self-generation energy ODI target of 24%, and have signed the carbon zero agreement by 2030 along with the rest of the water sector.



Sustainable Financing Framework

We've developed this Sustainable Financing Framework in alignment with the International Capital Market Association's:

- Green Bond Principles (GBP)
- Social Bond Principles (SBP)
- Sustainability Bond Guidelines (SBG)¹

And the Loan Market Association's:

- Green Loan Principles (GLP)
- Sustainability Linked Loan Principles (SLLP)²

¹ published in June 2018, available at [icmagroup.org/green-social-and-sustainability-bonds/](https://www.icmagroup.org/green-social-and-sustainability-bonds/)

² published in March 2018 and March 2019

These Principles have four key components:

- 1. Use of Proceeds**
- 2. Process for Project Evaluation and Selection**
- 3. Management of Proceeds**
- 4. Reporting**

The Southern Water Sustainable Financing Framework supports the financing and refinancing of our water, wastewater and waste management investments and activities across our region that demonstrate environmentally sustainable outcomes. Under this framework Southern Water may raise debt in the form of Green or Social Bonds or both, Private Placements (including US Private Placements) and Committed Facilities.

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Our region has the highest number of blue flag beaches anywhere in the country. ”



1. Use of proceeds

The majority of Southern Water’s asset and expenditure projects and programmes of work fall within the Eligible Green Categories and the Eligible Social Categories taken from the Green Bond Principles and the Social Bond Principles.

Under this framework:

- The Eligible Social Categories and Eligible Green Categories together form the Eligible Sustainable Categories;
- Eligible Social Investments and Eligible Green Investments are together **Eligible Sustainable Investments**

All Eligible Sustainable Investments will fall within one or several Eligible Social Categories or Eligible Green Categories.

Eligible Sustainable Investments will fall within one will fall within in one or several of the categories. The below table aligns these categories to our strategy as follows:

Sustainable Development Goals

Table 1:
Mapping of Southern Water Business Plan Outcomes against ICMA categories

Our strategy and vision:

Long Term Outcomes



Resources

We work together to recycle every drop of water.



Environment

We keep rivers, lakes, reservoirs and coasts healthy and clean.



Economy

We collaborate to build a resilient economy for the South East.



Communities

We innovate together to create sustainable communities.

ICMA SBP/GBP Category		Resources	Environment	Economy	Communities
Social	Affordable basic infrastructure				
	Access to essential services				
	Food security				
	Socioeconomic advancement and empowerment				
Green	Renewable energy				
	Energy efficiency				
	Pollution prevention and control				
	Sustainable water and wastewater management				
	Environmentally sustainable management of living natural resources and land use				
	Climate change adaptation				
	Eco-efficient and/or circular economy, adapted productions, production technologies and processes				

Our inaugural Sustainable financing will include projects from a number of these categories. The appendix details some of the larger investments made in the qualifying period and an alignment to the categories listed.

Our inaugural financing will be a mix of new financing in the AMP7 period and refinancing eligible projects that commenced and/or completed in the period April 2015 to March 2020.

Future issuances could be for new financing, refinancing or a combination of both. For future refinancing we will look to use the net proceeds against Eligible Sustainable Investments that have been completed in the three years prior to the date of finance raised.

Definitions:

Eligible Green Portfolio which is defined as a portfolio of one or more Eligible Green Investments.

Eligible Green Investments means investments which fall within the Eligible Green Categories.

Eligible Social Portfolio which is defined as a portfolio of one or more Eligible Social Investments.

Eligible Social Investments means investments which fall within the Eligible Social Categories.

Brilliant at the Basics



Value

We recognise the value of water in our daily lives.



Quality

Clean, safe and sustainable water.



Network

Services effective and fit for the future.



Vulnerability

Support for customers in vulnerable circumstances.



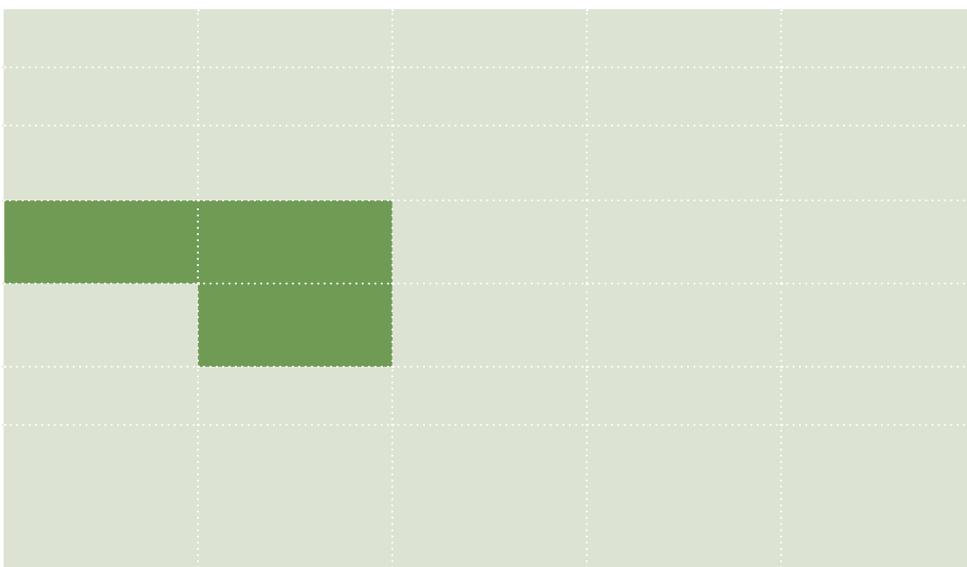
Experience

A refreshingly easy customer experience.



Affordability

Bills are affordable for our customers.



2. Process for project evaluation and selection

We have rigorous review and approval processes that ensure strong governance over the approval of all our new capital expenditure projects and budgets.

Investment in our assets is proposed through business cases that outline the costs and benefits of the investment. These business cases are approved by different boards as they progress.

The process includes risk identification, solution selection, cost and benefit analysis, as well as continuous monitoring at each gateway and throughout the life of the project until completion. Southern Water's Board approves the annual capital expenditure budgets and also the five-year AMP plans. All capital expenditure requires approval by our Asset Steering Group. The level of management approval is determined by project value and our schedule of delegated authority.

Where projects meet a certain threshold in value they are delegated for review and approval at our Investment Committee and then further onto Board level approval where required. Our water and waste strategy groups have oversight of the whole capital programme to ensure that it delivers the best outcomes for customers.

Eligible projects

After meeting the capex expenditure approval process, to qualify, Eligible Sustainable Investments must then meet the eligibility criteria outlined on page 8.

Eligible projects and programmes of work are then formally assessed based on their contribution to the environment and their impact on the categories described above. This assessment is formally governed by a Committee made up of Treasury, Corporate Finance and Sustainability teams (the 'Sustainable Finance Committee') who then determine if a project is eligible.

The Committee will formally assess investments for eligibility against the eligible criteria. This Committee will meet at least once a year and review the asset and expenditure categories submitted for inclusion and to confirm their alignment with the eligible social and green categories outlined on page 8.

The Sustainable Finance Committee is also responsible for overseeing any future updates to the framework and managing allocation and impact reporting under the framework.

Although these categories are broad in the range of eligible assets, we reserve the right to consider additional assets in the future. Any such assets will only be included after obtaining approval from a Second Party Opinion Provider.

Certain categories of spend have been specifically excluded from this framework, such as personnel costs, potential fines and legal costs associated with any pollution incidents, and also financing costs (which include costs associated with raising finance).



3. How we will manage the proceeds

The net proceeds arising from an issuance under this framework will be appropriately managed by the Treasury team at Southern Water.

The proceeds will be used to finance, refinance or invest in eligible projects or programmes of work that meet our eligibility criteria.

If there is any occasion where proceeds from an issuance cannot be immediately allocated to finance or refinance these projects, the funds will initially be placed as deposits with money market funds or bank counterparties in accordance with our Treasury Policy. We will then ensure these funds are not used for any projects or programmes contrary to this framework.

We intend to maintain a healthy buffer of investments by providing over collateralisation of at least 20% of eligible projects. This will allow for the changeable nature of our infrastructure

project costs and to ensure, at all times, that the quantum of spend is no less than the investments in the Eligible Sustainable Portfolio.

An important criteria here is the avoidance of double counting of Eligible Sustainable Investments. We will do this by allocating unique identifiers and allocated amounts against the relevant project in our capital reporting management system. This will be managed by the Treasury team, with support from the Capital Reporting team, and will be reconciled at each issuance to prevent any double counting of allocation of proceeds.

As mentioned previously, this inaugural financing will mainly be used to refinance eligible projects completed in the period 2015–2020, with any additional amounts will be for financing of new projects. Future issuances may also include refinancing, as well as financing of new Eligible Sustainable Investments.



4. Reporting

We'll provide our investors with information on the assets (or, in some cases, expenditure) that is financed and/or refinanced within one year of the inaugural Bond issuance. This will include the amount allocated and an estimate and description of the associated impact.



Allocation reporting

The majority of the proceeds from the funds raised from our inaugural bond will be used for the refinancing of eligible projects. Therefore, we'll issue an initial report immediately after issuance of the bond.

We'll also make a report available to investors within one year of any issuance for funds raised for new financing.

These reports will detail:

- how much of the financing raised has been allocated, and to which sub-portfolio (Social, Green, or both), projects, or programmes of work
- a description of the assets refinanced or financed with the proceeds
- the allocation of new financing and refinancing.

Impact reporting

On an annual basis, and until the maturity of the issue (where feasible), we'll report the impact of your investment in our Eligible Sustainable Investments on a wide range of environmental and sustainability measures.

We'll report on the following measures, but may add more criteria that we deem appropriate:

- Our carbon emissions (kilotonnes of carbon dioxide equivalent, ktCO₂e)
- Our total level of leakage (megalitres of water per day, ML/day)
- The number of pollution incidents (categories 1–3)
- Our renewable energy generation (as a percentage of energy use)
- Bathing water quality (number of beaches rated as 'excellent')

We also annually publish details of our carbon footprint with the latest figures for 2018–19 published at southernwater.co.uk/climate-change.

External reviews

Southern Water has obtained independent verification of this Framework by DNV GL and its alignment to the Green Bond Principles ('GBP'), Green Loan Principles ('GLP'), Social Bond Principles ('SBP'), Sustainability Bond Guidelines ('SBG') and Sustainability Linked Loan Principles ('SLLP') their opinion can be found on our website at southernwater.co.uk/SPO.

As and when required, Southern Water will also obtain independent verification for issuances made under this Framework.

Appendix: Our transformational programmes



Target 100



Catchment First



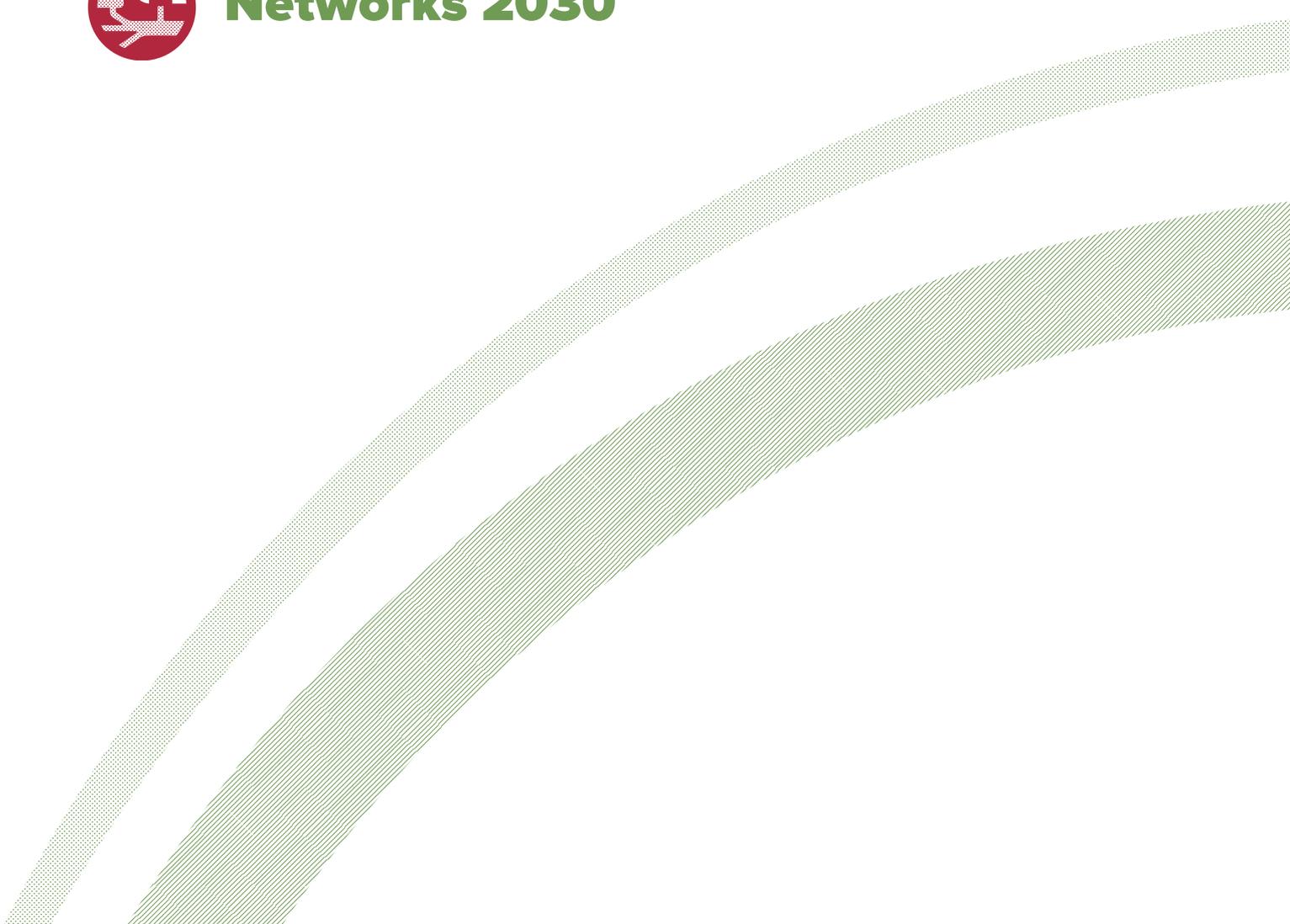
Resource Hubs



Sustainable Drainage 2030



Networks 2030



Target 100

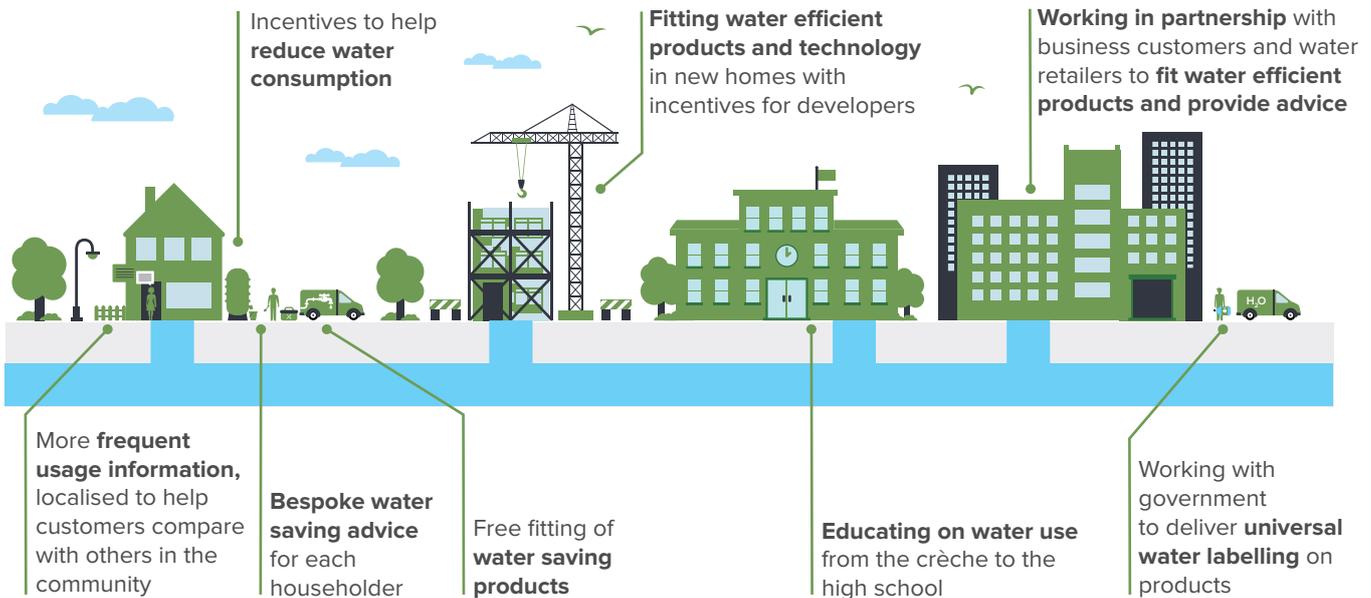


Our intention is to reduce average consumption to 100 litres per person, per day by 2040. This will help reduce waste and ensure more water is available for homes, business, and the environment.

Our customers have told us they are willing to reduce consumption. They demand we play our part, so we will commit to our leakage reducing, at a rate that more than matches the reduction in consumption.

Through Target 100 we will make better use of our data to provide more customers with

bespoke water-efficiency support; including products and advice. We'll use a range of levers to incentivise customers to reduce their consumption and maintain low levels. We'll encourage new homes to be even more water efficient through incentives and the planning system, pressure government to introduce water labelling across all water-using products to increase customers' awareness, upgrade all our meters to smart meters to give customers access to real-time information, and we will educate customers on the true value of water to instil lasting cultural change. We will also be working with other water companies and other stakeholders to push for universal metering, regardless of water-stressed status.



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Catchment First



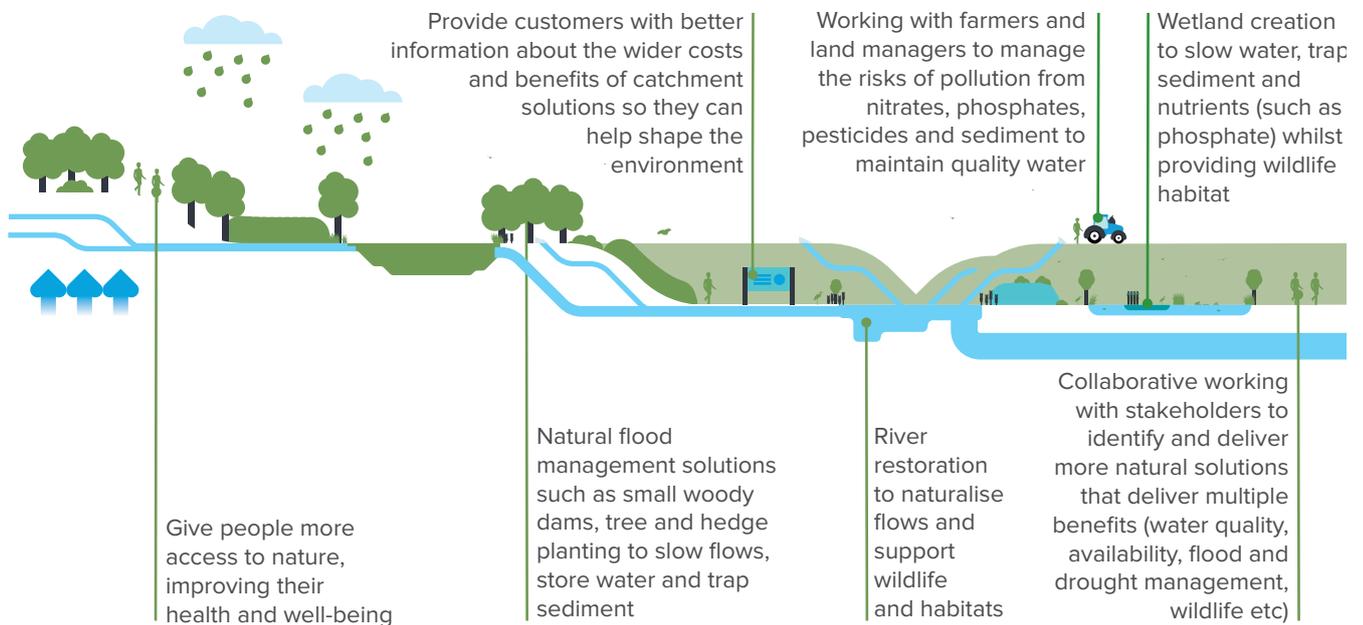
We need to rethink how we plan and work so our focus broadens from traditional approaches to more natural solutions.

We will work collaboratively and embrace ecosystems thinking to deliver environmental, societal and economic benefits.

Catchment First is our transformational programme to put catchments at the heart of our decision making in order to achieve a more resilient environment and service. Our vision is for catchments where groups of stakeholders work together to develop and deliver benefits in water quality and availability, flood management and wildlife. In addition, and through better access to nature, we will improve people’s wellbeing.

Examples already underway include working with partners on the Brighton Chalk Management Partnership (ChAMP) to reduce the amount of pollutants, such as nitrates, entering our water supplies. We are building strong relationships with catchment partnerships and environmental organisations across our region.

We are working with the University of Kent on an innovative project which will help us predict what our catchments may look like in the future and we are collaborating with the Environment Agency and catchment partners to better understand the health of our catchments and to build an evidence base to inform decision making, waste management, and integrated water cycle management – find out much more about our approach at southernwater.co.uk/environment.



Resource Hubs

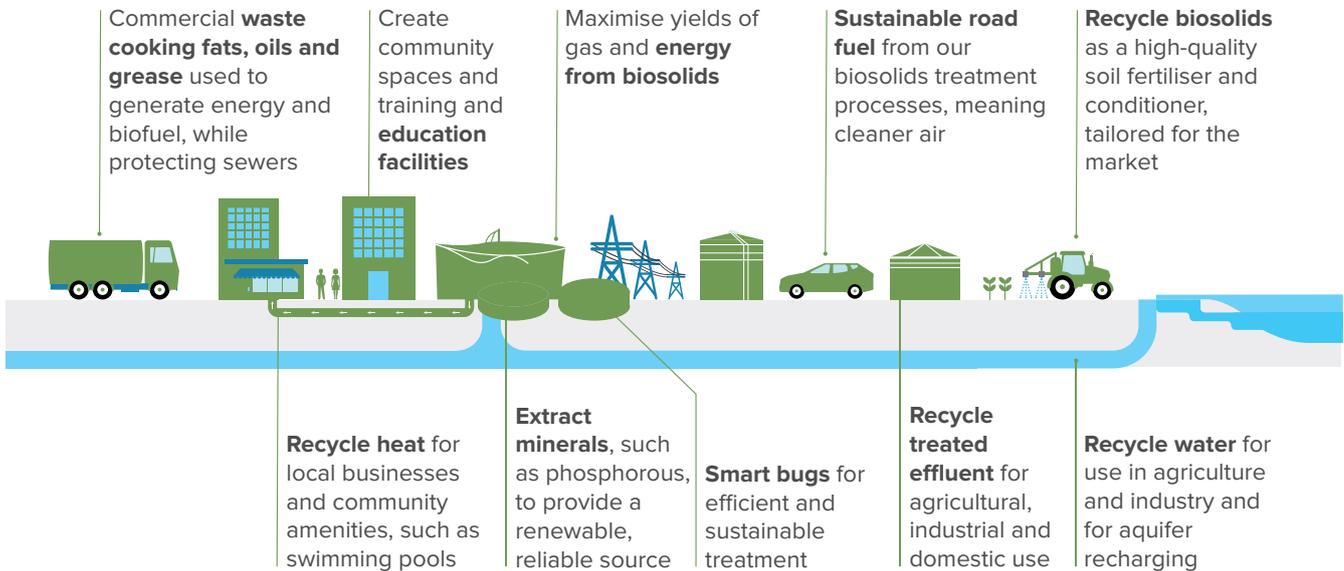


Our infrastructure can do so much more for our communities. We will transform our larger treatment works into a resource for local people – so that we all value our water.

Our treatment works can seem distant from the people they serve. We want to bring them much closer to the heart of their communities. We'll transform them into Resource Hubs by recycling wastewater, generating renewable energy, supporting community amenities and providing space for training. Our Resource Hubs will still treat wastewater to the highest standard – but they'll also increase resilience and enhance the natural, social and economic capital of their communities.

The first site we'll transform will be our Peacehaven works near Brighton. Through it we will increase the amount of renewable energy we generate to 100% – making the site energy neutral in the long term. We will work with a local energy co-operative to explore if we could increase the amount of energy generated from food waste.

We will take waste cooking oils from local business, preventing it from blocking our sewers and increasing the amount of biogas we generate. We'll redirect 50 million litres of treated water each day to rivers rather than the sea, enabling water reuse schemes and collaboration with a neighbouring water company to increase the resilience of the wider Brighton area. We will also provide a new space for our South East Skills Academy – working in partnership with nearby schools and Science, Technology, Engineering and Mathematics (STEM) colleges.



Sustainable Drainage 2030



Our drainage systems are a crucial part of the region's infrastructure, helping to protect our environment and enabling future growth. New technology and more sustainable approaches are helping us make more effective use of our existing network.

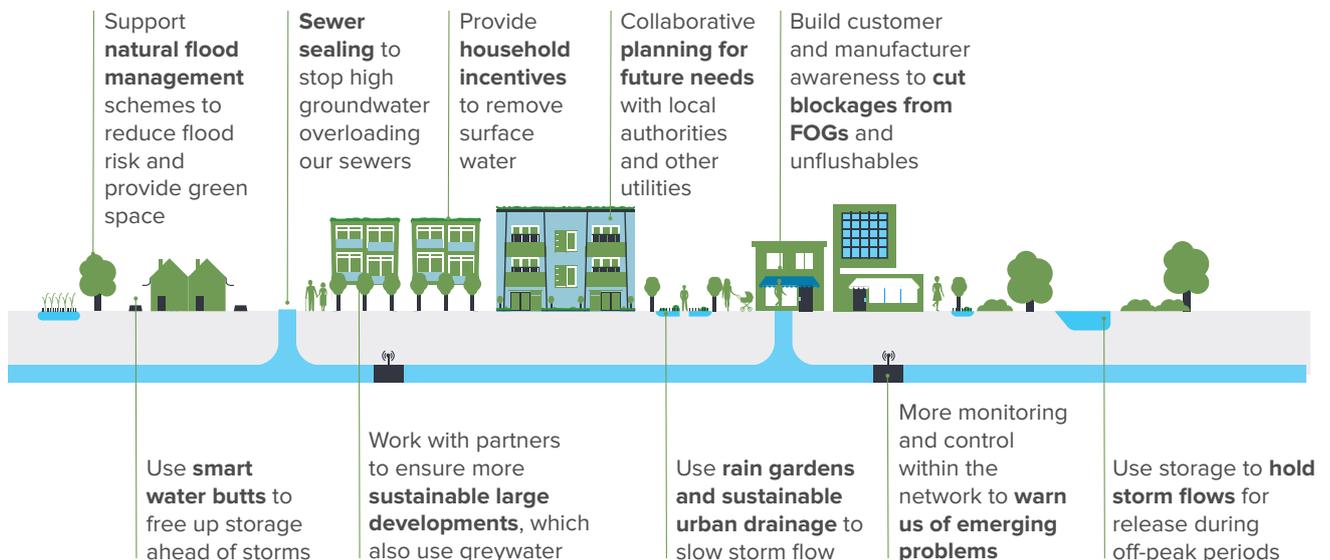
Through Sustainable Drainage 2030 we will transform our sewerage networks to ensure we support sustainable growth and are protected against climate change – ensuring they are fit for future generations. We have almost 40,000 km of drainage networks across our region, from remote rural locations to some of the most densely-populated areas in the country. They will come under increased stress.

We intend to build on our successful Portsmouth surface water separation schemes, where one third of storm water was removed from our sewers and more than 7,000 properties were

reconnected to a new surface water drainage system. We'll adopt this kind of approach for communities across the region, encouraging greater use of blue-green infrastructure, such as sustainable drainage systems, rainwater capture and other similar opportunities.

We'll also use new technology and data analytics to improve our ability to manage capacity in our networks and reduce risks from more extreme weather. We are playing a prominent role in an industry-wide group developing future policy proposals, working with developers to make sure new developments are as sustainable as possible and encouraging manufacturers to re-label wipes so they're less likely to cause blockages.

We want new developments in the South East to be models for sustainable living. For that reason we've been working closely with the Ebbsfleet Development Corporation and the planned new development at Fawley Waterside to ensure the new towns are as sustainable as possible.



Networks 2030



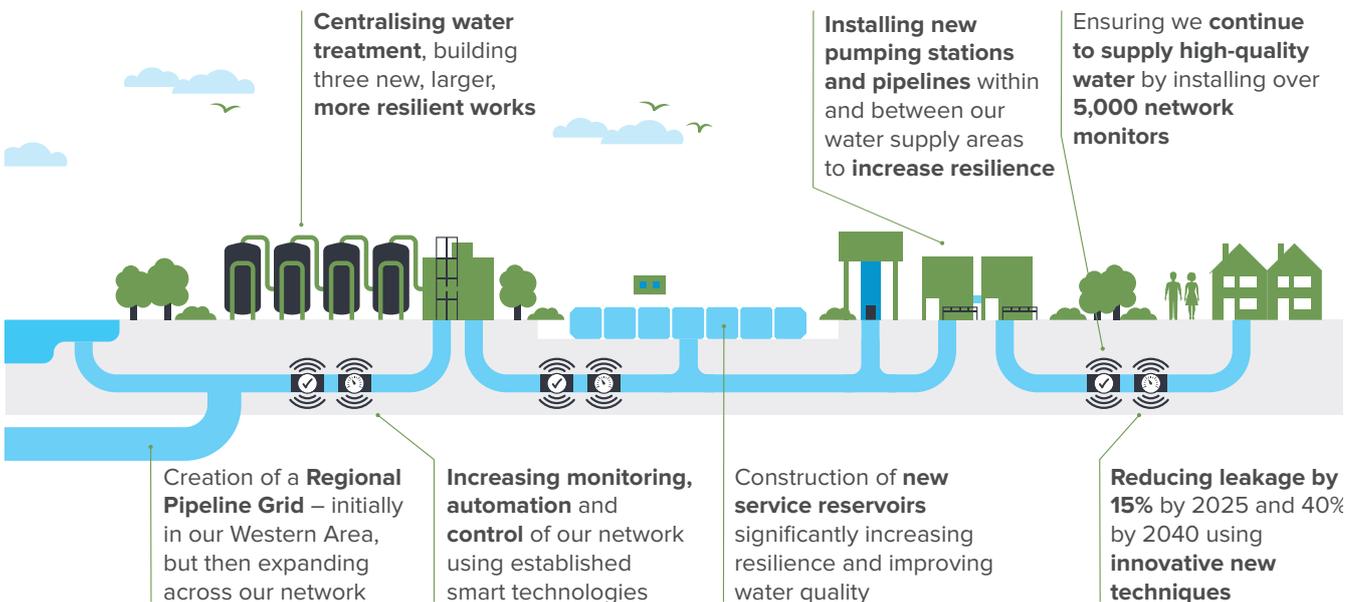
Our water networks provide a vital public service – reliable, clean drinking water. However, they are under pressure due to age, climate change and population growth.

We need to embrace new technologies, improve network interconnectivity and reduce leakage to ensure resilient water networks for future generations.

Through Networks 2030 we will rationalise and automate our networks to improve interconnectivity and ensure an efficient, resilient system for generations to come. This doesn't mean a big increase in spending. We will invest much more effectively and fully embrace innovation to meet the challenges ahead.

We are planning to install 2,500 smart water-quality sensors, replace 330 km of water mains, and reduce leakage by 15% by 2025. We will also retire 21 water supply works and commission three new ones, decommission 75 water service reservoirs and build 17 new ones, and have a semiautonomous water network by 2030 and a fully autonomous network by 2050.

The first network we'll transform will be in Brighton where we intend to decommission 14 storage reservoirs and replace them with two new ones, rationalise five water supply works into one – our largest new supply works since 1982 – use catchment management methods to reduce risk of contamination from pollution in the South Downs, and support customers to reduce their consumption as part of Target 100.





southernwater.co.uk

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from
**Southern
Water** 