



Engagement Case Study | 2022

Company: Pennon Group (PEGRY)



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Engagement at Pennon Group Plc



Company Description

Pennon Group Plc provides clean water and wastewater services in the United Kingdom. It provides water and wastewater services for customers in Cornwall, Devon, and parts of Dorset and Somerset; water-only services in the areas of Dorset, Hampshire, and Wiltshire; and water and wastewater retail services to non-household customers in Great Britain. The company also offers regulated water to approximately 1.2 million customers in the Bristol region. It serves approximately 50 million household and non-household customers. The company was incorporated in 1989 and is based in Exeter, the United Kingdom.

Engagement Issue

Recently, Pennon has come under investigation over possible violations involving its wastewater treatment regarding the discharge of untreated sewage into rivers and the sea by Ofwat. This has led to an enforcement case against South West Water, owned by Pennon. The case could see the regulator fine up to 10% of their annual turnover. Ecofin has also noted governance concerns relating to the recent news on the executive remuneration. Moreover, we have several concerns about the sustainability of Pennon's business in the face of climate change. We believe drought will be a main challenge in the upcoming years where periods of dry weather in the south west areas could significantly impact operations and believe climate change and adaptation strategies are of the utmost importance.

Engagement Objective

Ecofin desired more transparency around these sustainability issues and a deeper understanding on how Pennon is working to prepare for increasing headwinds to due climate change while working to mitigate ESG risks.

Scope and Process

On 31 August 2022 Ecofin spoke with Pennon Group to discuss our concerns. During the meeting we voiced our concerns about documentation around climate change and adaption strategies for drought, setting KPIs to track progress on sustainability projects, and potential outcomes of the environmental violations through Ofwat. Pennon Group discussed their various strategies and upcoming plans to address our concerns pointing to their biodiversity dashboard on their website and implementation of their Green Recovery Initiative.

Outcome

Ecofin's conclusion on the case is that there is limited light at the end of the tunnel for Pennon Group. In our view they are clearly stuck in a sustainability case with OFWAT unlikely to spare them from a significant fine. Ultimately, we found their answers to our concerns unsatisfactory. These issues add to mounting political pressure and earnings downgrades and have pushed Pennon Group outside of Ecofin's criteria for remaining in the portfolio. We will be exiting the position.

Important disclosures



This was the view of the Ecofin Advisors Limited Investment Team at the time and has not been updated to Jan 2023.

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