



# Spotlight on water utilities

Significant responsibilities faced by water utilities to provide sustainable water services, and how investors evaluate the challenges.

Water utilities play an integral role in society and for the environment. With that comes a responsibility for water utility companies to operate their business responsibly, addressing Environmental (E), Social (S) and Governance (G) risks but also taking advantage of opportunities to be leaders in the space.

Regarding their Social (S) practices, water utilities must provide householders and businesses with reliable, safe and clean water, while ensuring access and affordability for all.

On the Environmental (E) side, water companies play a critical role in providing water and waste-water services, including sewerage treatment, whilst keeping UK rivers and water sources clean. When failing to provide these, water utilities face large

penalties such as fines or litigations and losing their license to operate.

Pollution incidents can indeed be costly. Southern Water, operating in the UK, was recently fined a record £90m for deliberately dumping raw sewage into seas and rivers over several years. Such incidents, some of which have been highlighted by a BBC Panorama documentary on illegal discharges of untreated sewage into rivers (in April 2021), prompted BlueBay to engage with water utilities in the second quarter of this year.

Climate change impacts is also a potential disruption for the safe and consistent provision of water services, with heavy rainfall or droughts bringing additional challenges for water companies. Adding to this is the pressure to decarbonise and reduce Scope 2 emissions mainly.

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### What ESG factors are evaluated when looking at water utilities?

Potential investors in water utilities should assess whether companies have a fair and equitable framework in place combined with a long-term, responsible approach to resource use and community engagement.

Such efforts can position water utilities to take advantage of opportunities such as:

- **Increasing efficiency through smart metering**
- **Re-using wastewater to support a circular economy**
- **Improving water quality through better infrastructure.**

In our formalized assessment and ESG evaluation of water utility companies, we look at the bigger picture to assess all E, S and G risks faced. We review whether issuers have a framework in place to explain how ESG factors are relevant to their business models and strategy, when these are considered material and how they are addressing them.

We also look at historical ESG performance, benchmarking data by looking at previous years' performance and comparing with peers. That is why it is important that companies provide uniform and harmonised disclosure.

To facilitate our assessment, we expect companies to provide regular public disclosure covering policy, systems and performance, with qualitative and quantitative data. That could be done referencing consistent frameworks, such as the Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD).

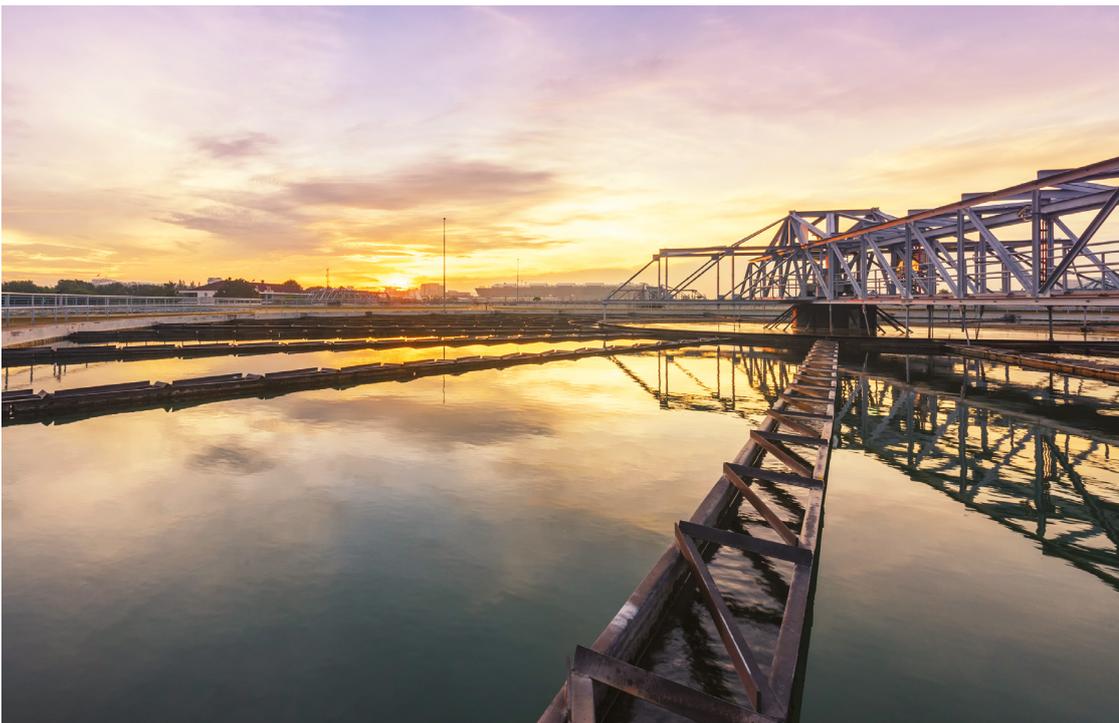
Finally, leading companies have set ESG goals and targets in place. These must be comparable, relevant, ambitious, but also manageable. This can include for instance setting a target to be carbon-neutral by 2030, detailing clear milestones, so investors can track improvement and achievements, or targets for reducing leaks and pollution incidents.

Our ESG analysis and engagements with water utilities show some are on a positive trajectory, with more data being disclosed over time and more targets set. But there is still significant room for improvements.

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