

# Information notice

April 2021

## Regulatory accounting guidelines 2020-21: Further guidance on reporting of greenhouse gas emissions

In our '[Consultation on regulatory reporting – Responses document](#)', and the accompanying Information Notice ([IN 20/08](#)), we provided notice of, and reasons for, changes relating to how we would like companies to report on their Greenhouse Gas (GHG) emissions for 2020-21. This document reiterates the explanation for those changes as well as providing further guidance to assist companies to report on their operational GHG emissions. A brief update on embedded emissions is also provided.

### Background

As outlined in our 2020-21 regulatory reporting responses document, we would like companies to gradually enhance their level of GHG emissions reporting for both operational and embedded emissions. This will facilitate a greater understanding and clearer demonstration of progress and performance, including where this can be improved and/or accelerated.

In relation to operational and embedded emissions, we stated we were adopting a voluntary initial approach, with the intention for reporting to become more standardised and mandatory in future, as outlined in [Table 1](#). We proposed an evolving approach to reporting in recognition of companies being at a variety of stages in their reporting of operational emissions, as well as in their ability and readiness to report on embedded emissions. The approach we have outlined will allow time for companies to evolve their reporting approaches, while also delivering data and reporting that is gradually more detailed and standardised over time. Alongside this proposed evolution in reporting, we reiterated our encouragement for companies to continue to increase the transparency with which they report their emissions on their websites, ensuring that the information is up-to-date and in an accessible and meaningful format.

**Table 1: Summary of envisaged future reporting arrangements for operational and embedded greenhouse gas emissions<sup>1</sup>**

Reporting year	Operational emissions	Embedded emissions
2020-21	Voluntary standardised reporting	Voluntary company determined reporting
2021-22	Mandatory standardised reporting	Increasingly standardised reporting but voluntary
2022-23	Mandatory standardised reporting	Mandatory standardised reporting

## Guidance on the reporting of GHG emissions

### Operational emissions

In relation to operational emissions for 2020-21, we are inviting companies to voluntarily report gross and net GHG emissions (in tCO<sub>2</sub>e) for water and wastewater. In particular, we said we would like companies to:

- i. Break these emissions down by scope and the three main GHGs (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O) (for scope 1 and 3)
- ii. Present data on intensity of emissions (Kg per ML), and intensity per £m of turnover
- iii. Provide data on emissions reductions brought about by the purchase and generation of renewable energy.
- iv. Accompany emissions data with a Strengths, Weaknesses, Opportunities, and Threats (SWOT) style explanation.

Therefore, as the above areas for reporting indicate, and as [Table 2](#) makes clear, our reporting focus is on encouraging companies to report on scope 1 and 2 emissions which are principally derived from the assets they own and operate, and which they can directly influence, ie within the financial control boundary<sup>2</sup> of the company. However, we are encouraging companies to also report on scope 3 emissions, which are not under their direct control, but are set to account for an ever larger percentage of GHG emissions in the future as scope 1 and 2 emissions are reduced. The provision of data on scope 3 emissions is widely considered to be essential to enabling companies to ‘comprehensively manage their GHG-

<sup>1</sup> The introduction of mandatory reporting arrangements will be subject to consultation.

<sup>2</sup> From the perspective of the Greenhouse Gas Protocol ‘[A Corporate Accounting and Reporting Standard](#)’, the ‘Financial control boundary’ is an operational boundary that can be used to define the scope of direct and indirect emissions for operations the company can be deemed to be able to influence and thus be deemed to be responsible for.

related risk and opportunities'<sup>3</sup> which in turn gives the regulator, investors, customers, and other stakeholders, a broader understanding of the material risks, opportunities and threats a company may face.

We recognise many companies in the sector already have in place established reporting procedures for operational GHG emissions. This request is not intended to replace these. It is focused on enabling key data to be clearly and consistently extracted and reported on, so that Ofwat, customers, and other stakeholders gain a better understanding of the progress being made by the sector. Therefore, to provide the requested data, companies should continue to use the UK Water Industry Research Carbon Accounting Workbook (CAW), which is updated annually and is reflective of carbon reporting and emissions guidance from the Department of Environment, Food and Rural Affairs (Defra).

In addition to using the CAW, we also encourage companies to specify additional reporting practices they may be using. For example, companies should make clear their use of accounting methodologies and programmes such as GHG Protocol Corporate Standard, ISO 14064-1 or Carbon Disclosure Programme. We would also encourage companies to make clear the assurance processes they have in place for calculating their GHG emissions, which may involve assurance from a named third party and/or accreditation demonstrated via external bodies such as the Carbon Trust.

We would also like companies to include an explanatory statement alongside the emissions data reported to us. This will facilitate greater clarity and understanding of the progress made in reducing GHG emissions. We would like companies to structure their explanatory statements such that they explain the 'Strengths', 'Weakness', 'Opportunities', 'Threats' (SWOT) of their approach to reducing GHG emissions. This approach is aimed at encouraging the sharing of best practice as well as highlighting any challenges companies face, particularly in relation to identifying how barriers to action can be overcome, and/or how innovation can be encouraged, as well as highlighting risks to continued progress.

We encourage companies to focus their reporting on GHG emissions by completing [Table 2](#). However, we recognise that this may not be possible for all companies. Should this be the case or a particular emissions source or gas is focused on, the rationale behind this choice should be made clear in the supporting explanatory statement.

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<sup>3</sup> See Greenhouse Gas Protocol - 'Technical Guidance for Calculating Scope 3 Emissions' (Version 1.0). 2013. World Resources Institute and World Business Council for Sustainable Development.

**Table 2: Operational greenhouse gas emissions reporting**

Focus	Water (tCO <sub>2</sub> e)	Wastewater (tCO <sub>2</sub> e)
<b>Scope 1 emissions (for example):</b>		
Direct emissions from burning of fossil fuels		
Process and fugitive emissions		
Transport: Company owned or leased vehicles		
Total scope one emissions		
Total scope one emissions by GHG type	CO <sub>2</sub>	CO <sub>2</sub>
	CH <sub>4</sub>	CH <sub>4</sub>
	N <sub>2</sub> O	N <sub>2</sub> O

<b>Scope 2 emissions</b>		
Grid electricity used by company (including Combined Heat and Power (CHP) electricity purchased). Location-based method		

<b>Scope 3 emissions (for example):</b>		
Business travel on public transport and private vehicles used for company business		
Outsourced activities		
Electricity transmission and distribution		
Total scope three emissions		
Total scope three emissions by GHG type	CO <sub>2</sub>	CO <sub>2</sub>
	CH <sub>4</sub>	CH <sub>4</sub>
	N <sub>2</sub> O	N <sub>2</sub> O

<b>Gross operational emissions (Scope 1, 2 and 3)</b>		
By area (water and/or wastewater)		
Overall total		

Exported renewables (generated onsite and exported)		
Emissions reduction from purchased renewable energy (market-based carbon accounting benefit)		
<b>Total net operational emissions</b>		

<b>Ratio values</b>		
Annual operational GHG intensity ratio values	kgCO <sub>2</sub> e/MI	kgCO <sub>2</sub> e/MI
GHG emissions in relation to turnover	tCO <sub>2</sub> e per £m turnover	

## Working with the industry on embedded emissions

We are particularly interested in understanding more about how companies are seeking to quantify and minimise embedded emissions by using existing and/or developing frameworks to help in the decision-making process. Where companies are utilising frameworks such as PAS2080, and/or UKWIR's framework for accounting for embodied carbon, and similarly to the approach for operational emissions, companies should make clear what they see as the 'Strengths', 'Weakness', 'Opportunities', 'Threats' (SWOT) of the approach they are using. We also encourage companies to reflect on the role that post-project monitoring and evaluation can play in enhancing the accuracy of the frameworks they may be using.

As mentioned in our 2020-21 ['Consultation on regulatory reporting – Responses document'](#), our intention is that progress in the reporting of embedded emissions could in part be made via a collaborative working group, which could include companies, Ofwat, and other interested parties such as Defra, the Environment Agency, and the Climate Change Committee. To facilitate wider discussion and agreement on how progress can be made in the reporting of embedded emissions, we envisage holding a workshop in late summer 2021, following a review of company emissions reports included in the July Annual Performance Report submissions. We will then consider what approach to take for the 2021-22 reporting year, with a view to enabling the introduction of a standardised mandatory reporting framework for the 2022-23 reporting year, subject to consultation.

## Further questions

If you have any questions on this Information Notice, please contact James Jenkins at [James.Jenkins@ofwat.gov.uk](mailto:James.Jenkins@ofwat.gov.uk).