

## **Consultation on regulatory reporting for the 2021-22 reporting year**

### **Response from Northumbrian Water Limited**

We recognise the importance of annual reporting as a means through which regulators, customers and stakeholders can hold us to account for our performance and our progress towards delivering the commitments set out in our business plan. We welcome the opportunity to respond to this consultation and set out our answers to the consultation questions below.

We note that, once again, additional data requirements have been added and comment on these on a case by case basis in the remainder of this document. While some of these additions are undoubtedly beneficial (and may need to be expanded further), for example understanding the relation between service and cost for leakage, in other cases, for example in relation to reporting embedded carbon, we believe the additions are less beneficial, and the net effect is to further increase the scale and complexity of the reporting framework.

We will shortly be writing to you separately to expand on this point, as part of which we'll make some suggestions for reducing complexity.

#### **Question 1: What are your views on the proposed changes to the APR tables in A1?**

No comments.

#### **Question 2: Do you have any other comments or views on the proposal for mandatory standardised reporting for operational GHG emissions, beyond those included in responses to last year's RAGs consultation?**

Northumbrian Water fully supports standardised Operational Emissions reporting.

We propose that all companies report their emissions using the latest UKWIR Carbon Accounting Workbook (currently version 15) in each year and that the values submitted at APR are those generated by the workbook based on the user's inputs.

Northumbrian Water also has its use of the Carbon Accounting Workbook audited in line with ISO14064-1 and would welcome a universal requirement to meet that standard to ensure all companies are reporting on the same basis. Ofwat should however be aware of the limited supply chain for accredited and high-quality GHG emissions auditors in the UK which may impact APR audit timelines.

Finally, Ofwat needs to consider updating reporting methodologies for in-period AMP7 ODIs relating to operational emissions, to address material weaknesses in older versions. We set these out in more detail in our recent Annex 2 submission.<sup>1</sup>

**Question 3: Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?**

We make some specific observations regarding the proposed tables as follows:

- The table as described allows only removals of emissions associated with “exported renewables” and “purchased renewable energy”.
- The table should be extended to include an “other removals” option, which would allow for future developments of the Carbon Accounting Workbook such as land use improvements or Carbon Capture and Storage.
- The line for “purchased renewable energy” should be removed as it relates to out of date reporting standards.
- We also suggest that Ofwat update the table to include both location-based and market-based reporting in accordance with the Greenhouse Gas Protocol, the sector’s 2030 route map and the Carbon Accounting Workbook. Market-based reporting supersedes the “purchased renewable energy” line described above.

**Question 4. What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?**

Northumbrian Water does not believe that a standardised approach to reporting embedded emissions will be cost beneficial, in customers interests or deliverable on the timescales set out in the consultation document.

We supported the recent WaterUK response<sup>2</sup> which provided detailed information about the complexity and attainable timescales for reporting of embedded emissions, however this sector-wide position has not been reflected in this consultation.

NWL recognizes that some members of the industry have implemented embedded carbon reporting unilaterally, however the detailed methodologies have not been shared across the industry so the accuracy and validity of these methods is currently unknown to us.

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<sup>1</sup> NWL Annex 2 submission, 11<sup>th</sup> June, in relation to GHG PC

<sup>2</sup> Water UK response to Ofwat consultation on 2020/21 reporting, 18<sup>th</sup> August 2021

The main variables relating to embedded emissions at company level are total spend and project types. However, given the differing capital requirements of the various WASCs and WOCs it is unlikely that company-level metrics will be useful/meaningful to customers or the regulator for understanding emissions on a comparative basis.

Northumbrian Water notes that some proponents of embedded emissions reporting champion the idea that carbon *is* proportional to cost. However, Ofwat should consider that as a cost and service regulated industry, NWL's (and other companies') primary focus when selecting optimum interventions is already on delivering maximum service benefit for lowest cost. Not only is it therefore likely that embedded emissions are already reasonably low, but also that any further reductions may require companies to deviate from this approach, and hence choose higher cost (per unit of service improvement) solutions – which would be contrary to both the incentives applied by the current regulatory framework, and suggests there may become a point at which that embedded emissions are proportional to cost.

We suggest that in the first instance Ofwat needs to understand and resolve these challenges (which we will explore further in our PR24 consultation response) before seeking to establish standardised reporting for embedded carbon, which currently will only increase the data burden without driving benefit.

In the meantime, we would propose an alternative approach to reporting embedded emissions, where companies demonstrate how they have accurately calculated and appropriately valued the embedded and operational emissions over the whole life of specific projects.

The projects should be selected based on cost thresholds, with these cost thresholds decreasing over time – effectively increasing the scope of whole-life-carbon reporting whilst also allowing an attainable glidepath to standardised and company-wide carbon reporting. This approach has the added benefit of applying the reporting burden later to smaller industry participants.

A working group could be established to further develop this methodology – See question 5.

Further, our proposal would also allow time for companies to address further challenges associated with embedded carbon:

- Updates to corporate systems may be required to standardise project information.
- Companies have different framework contractors, these contractors will have varying maturity on their carbon reporting, again limiting standardization.
- Companies such as NWL which have made commitments to spend locally (as endorsed by customers in PR19) will naturally tend to SMEs in their supply chain. Whilst this is likely to deliver real world carbon benefits, it is also likely that these SMEs may have less mature carbon reporting processes.

Northumbrian Water proposes that 2022/23 be used for the development of reporting methodologies and internal reporting, with the 2023/24 seeing companies report embedded

emissions publicly for key projects. As per the WaterUK consultation response<sup>3</sup>, NWL supports mandatory embedded emissions reporting from 2025 provided that the required measures have a clear relationship with underlying carbon performance.

Ofwat should also consider the cost of reporting embedded carbon. Operational emissions reporting to a good standard currently costs NWL in excess of £50k pa for what is a relatively straightforward data collection exercise followed by data input into an existing methodology (the Carbon Accounting Workbook). Costs associated with embedded carbon are likely to be an order of magnitude higher.

**Question 5: Are there any particularly relevant frameworks or approaches for us and the industry to consider in relation to embedded emissions reporting and reductions? For example PAS2080?**

NWL does not have a preference on existing frameworks or approaches, but instead NWL proposes that the Regulator and all industry participants create a working group to design an embedded emissions reporting structure that drives customer and environmental value.

**Question 6. What area/s of data or other information do you consider we should focus on for voluntary reporting? For example:**

- **Design, construction and/or maintenance activities**
- **Number and/or size of suppliers**
- **Project spend and/or value**
- **Inputs and/or materials**
- **Specific services**
- **Number of GHGs reported on by suppliers**

NWL believes that these variables should be defined based on the outcomes from the working group above.

**Question 7 Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?**

RAG2 requires business rates costs for wholesale activities to be allocated to price control units using gross modern equivalent asset (MEA) values. We do not support the use of MEA for this purpose. MEA was a feature of current cost accounting which is no longer used within the price control mechanism. Maintaining robust MEA values is a significant and expensive activity and it is disproportionate to require this for the purposes of allocating rates costs to price controls, for either water or wastewater activities.

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<sup>3</sup> Water UK response to this consultation

As business rates are modelled separately for price review purposes, a simplified allocation approach would be appropriate. We would propose allocating across price control in proportion to revenue allowance and then to the most appropriate activity within price controls (ie. water treatment, sewage treatment and disposal and sludge treatment).

**Question 8:**

- • Does your company jointly own or operate assets with another company?
- • Should guidance be included in this area?
- • What specific points should the guidance cover?

NWL does not jointly own or operate assets with another company, so we have no comments in this area.

**Additional Comments: Leakage Costs**

We are supportive of Ofwat's proposals to collect information on Leakage reduction costs as we believe this will facilitate an improved understanding of the cost/service relationship. However, we consider that this approach needs to be broadened to other service metrics/common ODIs in order to understand the cost/service relationship more holistically. We elaborate on this further in our PR24 consultation response.