Rob Lee
Ofwat

Regulation

Name Tonia Lewis
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22 July 2021

Dear Rob,

Consultation on regulatory reporting for the 2021-22 reporting year

Thank you for the opportunity to provide feedback on the proposed Regulatory Accounting Guidelines and pro-forma tables for the 2021-22 reporting year. Our detailed feedback is enclosed as follows:

- Appendix 1 – Our response to consultation questions 1 – 8.
- Appendix 2 – Our response to consultation question 1, completed within the requested Ofwat format.

Should you have any questions or comments on our response, please do not hesitate to contact either me or Lisa Slade [redacted] We look forward to working closely with Ofwat in supporting the ongoing development of regulatory reporting through AMP7.

Yours sincerely,

[redacted]

Tonia Lewis
Head of Regulatory Compliance & Reporting

Appendix 1

This appendix sets out our responses to the consultation questions 1 – 8 on regulatory reporting for the 2021-22 reporting year, as issued by Ofwat in May 2021.

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

Overall, we agree with the majority of the proposed changes; however, we have outlined some areas where we would welcome further clarification (see Appendix 2).

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?**

We support the mandatory standardised reporting of operational GHG emissions. We already report a number of metrics and data through the Streamlined Energy and Carbon Reporting Regulations. As a general principle when reporting across multiple documents and scopes we would note the need for consistent methodology where possible, to ensure that repetition is avoided.

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

In line with the objective of companies providing standardised, transparent and accessible emissions data, we request the following changes to Table 2:

In paragraph 5.7, you state "Within this table, we also requested data for the emission reductions brought about by the purchase and generation of renewable energy". However, the table does not currently allow for the reporting of carbon capture, tree planting, other certified renewable products or activities. We would request that these be included.

In the Scope 2 emissions section of Table 2, you are proposing that data should be prepared using the location-based method. We would suggest using a market-based methodology as this aligns to the approach that will be used to measure success against the industry's net zero by 2030 objective. The complexity of reporting against two different methodologies has greater potential to cause confusion with customers and stakeholders.

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

There is a need to develop a reporting approach for embedded (previously referred to as 'embodied') emissions that is proportionate, meaningful and within the capability of all companies. Availability of data will be a challenge for companies that have not previously considered embedded carbon reporting, and so the reporting approach should build on data already available within organisations and reference publicly available common data sources such as the Bath University ICE database. This will be essential for comparable reporting to be undertaken. If we assume that there will be increasingly standardised reporting, but that it will be voluntary for 2021-22, the reporting requirements need to be defined with sufficient notice prior to the start of the reporting year. This will allow companies to identify available data, and also to act as a learning stepping stone towards mandatory reporting at some point in the future. For standardised reporting to be meaningful across all companies, it should use data that is routinely captured by every company, and as such companies will need time to prepare.

The key challenges that need to be considered and addressed are:

- Data from other third parties such as suppliers will remain a challenge as they need to be able to develop the capacity themselves to report consistently on embedded carbon and manage any commercial sensitivity issues that may arise.
- Existing framework contracts may not require the submission of data by supply chain.
- It is important that the reporting approach is consistent with other reporting requirements such as Task Force on Climate-related Financial Disclosures (TCFD), Companies, Partnerships and Groups (Accounts and non-financial reporting) Regulations 2016, Streamlined Energy and Carbon reporting (SECR), Energy Savings Opportunity Scheme (ESOS) etc.
- Data confidence levels will vary. Expectations therefore need to be clearly communicated, and companies will need to be open in their data confidence levels.
- The scale and type of capital programmes will vary between companies. Furthermore, not all companies currently report on the whole of capital investment – some concentrate instead on large projects. Comparable metrics need to be developed to enable comparisons across different water companies.
- Reporting by investment type will be difficult because schemes address multiple drivers.
- Disproportionate effort may be required for lower capital value schemes.
- The scope and boundaries for emissions reporting will need to be clearly defined, and will need to take account of:
    1. Capital works only or inclusive of maintenance programme
    2. Projects with shared ownership/control e.g., Thames Tideway, non-reg funded PV
    3. Timing of emissions ownership
    4. Potential double accounting of carbon with supply chain reporting.
- The baseline for data reporting needs to be defined.

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?**

There are some obvious merits to aligning with suitable frameworks such as PAS2080, and/or UKWIR's (2012) framework for accounting for embedded carbon. Aligning with these frameworks would support a more flexible approach that can be adopted by more companies. There is a current UKWIR project addressing this question, amongst others, to refine such an approach suitable for the water industry, drawing on frameworks such as PAS2080. It is aiming to produce a revised framework for whole life carbon accounting (incorporating capital carbon) later in 2021.

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

We would suggest that there should be a focus on a limited number of high-use/high-value input materials such as concrete, steel, aggregate and fuel that can be recorded at a programme level. Such an approach would need to take account of the varying carbon impact of materials obtained from different sources and suppliers. There would need to be some flexibility to address, for example, the impact of sourcing steel products from within the UK and abroad, including the carbon impacts of energy use in those countries, along with transport to site. This would then correctly reflect when companies have chosen suppliers with lower carbon products. As noted in Question 4, the timing of reporting (e.g. at project hand over) would need to be consistent.

There is a need for clear and appropriate scope and boundaries, for example focusing on capital project spend and, where capital programmes are large, focusing on large projects above a de minimus spend.

A number of water companies, such as ours, have developed tools to assess embedded carbon for projects. These tools are used to forecast the embedded carbon of projects, and to determine embedded carbon once the scheme is constructed. They are aligned with our costing system, and the embedded carbon of components is based on our asset standards or built up from bespoke designs. Using this type of data for reporting would enable companies to focus on refining their asset standards, and to design decisions to drive down the embedded carbon of delivery programmes. These techniques would not, however, be consistent across the industry, so it is important that companies agree a standard framework and assumptions, whilst retaining the ability to apply different methodologies.

We think the following areas of data should be focussed on for voluntary reporting:

- **Design, construction and/or maintenance activities** – If reporting is to be based on design, construction and/or maintenance activities we would suggest starting with the 'main capital programme' delivered primarily by our design and build supply chain (i.e., exclude directly managed contracts, which are in general less complex and repetitive in nature). The difficulty with this approach is again around scope and boundary and ensuring that this is defined in industry standard terms. The carbon associated with design activities would be very small against actual construction data and would not be a priority for recording or reporting. New construction will be much easier to report than maintenance work unless the quantities of work done and equipment replaced are very carefully catalogued.
- **Number and/or size of suppliers** – This will be included in the capital programme number. We do not expect additional detail on each of our suppliers to be required (although we are working on this internally to encourage the supply chain to drive carbon reduction).

- **Project spend and/or value** – We would suggest that project spend and/or value should be reported in $tCO_2e/£$. Currently, there is no minimum value in our capital programme reporting, and it is only possible for us to report by project and value. Although we can build up this data using our carbon assessment tools and protocols, the differences in assumptions within tools for different water companies and regional pricing variations may again render this a largely inconsistent metric between companies. This type of metric could be used if what is included in the tCO_2e element (e.g., amount of concrete (of each type) x agreed emission factor) is standardised. There would also need to be some way of eliminating changes in efficiency (£m) since, by this measure, you could be seen to be delivering in a more carbon efficient way just by spending more to achieve the same outcome.
- **Inputs and/or materials** – We would suggest that there should be a focus on a limited number of high-use/high-value input materials such as concrete, steel, aggregate and fuel that can be recorded at a programme level.
- **Specific services** – If this means services such as water treatment, water supply or wastewater treatment, then again, consistent definitions are required for processes, scope and boundaries. This would then also need to be specific to the technology or process type for delivering that outcome or service. If reporting this data in terms of normalised water industry metrics (e.g. tCO_2e/PE or tCO_2e/MLD) were considered, then account would need to be taken of the variations in urban and rural populations and/or topographic influences. The metric would need to reflect tCO_2e/ML additional capacity provided.
- **Number of GHGs reported on by suppliers** – We will report in CO_2 equivalent, based on agreed CO_2e emission factors, with no breakdown of different gases. As our supply chain includes both large and small suppliers, this data (other than fuel quantities) may not be available from our smaller suppliers, leaving data gaps and uncertainty in reporting.

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?**

We recognise that there are challenges in using 'gross modern equivalent asset' values for allocating rates. These include there being no standard calculation methodology and differences between companies over how frequently this data is refreshed. However, upon our review, we have not identified a better cost driver.

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?

- We do not currently own any assets jointly with another company. However, as part of our Strategic Resource Options, this is something we are looking into for the future, and we expect to start detailed design this AMP.
- Yes, guidance should be included in this area.
- The guidance should be developed in line with the activities being undertaken by RAPID (Ofwat, EA and DWI) and water companies should be involved in this activity.

Appendix 2:

Table	Line number	Issue
1F	4	Typo in label for 1F.4 “benfits”.
1F	8	Ofwat response to query #170: “The treatment for cross currency swaps is as you describe in that line 1F.7 should be presented post the impact of cross-currency swaps. We will update the RAG4 line definition to clarify this position”. This hasn't been included in the line definition. Please confirm that this will be included in the next version of RAG 4.10.
1F	10	1F.10: Could guidance be clarified around whether timing should be adjusted out or not? The wording suggests adjusting for timing initially, but then makes a line reference to 4C.21 which ignores variance due to timing.
1F	Note 1	Note 1: Could the guidance around adjusting for CPIH be clarified as to whether it should be deducted on a simple basis or on a Fisher basis. The general guidance is for the Fisher equation to be used, but the wording at Note 1 suggests the simple basis.
1F	Various lines	Actual performance adjustment 2015-20: We think the labelling and RAG could be clarified to refer to PR14 reconciliation true-ups, which impact wholesale revenue in AMP7 and separately includes the innovation funding for AMP7?
2B	11 & 18	Ofwat response to query #38: “2B.18 should be defined as: Total developer services capital expenditure rather than operating expenditure. We will propose this change in our 2021-22 consultation”. This hasn't been included in the RAG 4.10 consultation. Please confirm that it will be included in the next version of RAG 4.
2B	2B.12 and 2B.20	In the Ofwat consultation, lines 2B.12 and 2B.20 have been updated to capture ‘Green Recovery’ expenditure. However, within RAG 4 and the new proforma, no changes have been made to lines 2B.12 and 2B.20 (in comparison to the prior year).
2F	11	Ofwat response to query #9: “Agree it needs to be multiplied by 1000. This amendment has not been included in the line definition in the consultation document.” Please confirm that it will be included in the next version of RAG 4.10.
3D	4 & 5	Ofwat response to query #144: "We agree that 2E.10 and 2E.23 should be removed from the calculation in 3D.4 and 3D.5 respectively.” This amendment has not been made in the consultation document. Please confirm that it will be included in the next version of RAG 4.10.

<table>
<tr><th>Table</th><th>Line number</th><th>Issue</th></tr>
<tr><td>3F</td><td>4</td><td>Ofwat response to queries #28, #45 & #52: “We agree. In line 3F.4 column 3, companies should input the ‘Total household population served for water excluding businesses.’ This is consistent with the definition set out in the PR19 Outcomes performance commitment appendices. The table definition guidelines should therefore read:”
<table>
<tr><th>Line</th><th>Title</th><th>Column 3</th></tr>
<tr><td>3F.1</td><td>Mains repairs - Reactive</td><td>Copied from 3F.3</td></tr>
<tr><td>3F.2</td><td>Mains repairs - Proactive</td><td>Copied from 3F.3</td></tr>
<tr><td>3F.3</td><td>Mains repairs</td><td>Copied from 6C.1</td></tr>
<tr><td>3F.4</td><td>Per capita consumption (PCC)</td><td>~~Copied from 4R.26 for water~~ Total household population served for water excluding businesses</td></tr>
</table>
This hasn't been included in the consultation for RAG 4. Please confirm that this will be included in the next version of RAG 4.10.</td></tr>
<tr><td>3F</td><td>9</td><td>As part of the query process for RAGs and proforma tables 2020-2021, errors were identified in the calculation for this line item (this includes errors regarding the use of 4R.19 and column 24). Ofwat has resolved the error for the 2020-21 tables; however, it does not seem to be reflected in these documents, RAGs or proforma table. Can this error be resolved in these documents? (Please see Log 82 of RAG queries 2020-21 for reference re Col 24 and log 43 re the use of 4R.19).</td></tr>
<tr><td>3G</td><td>4</td><td>In its response to queries #2 & #37, Ofwat confirmed that the sewer length used to normalise pollution incidents has been changed to an input field. The proforma still shows this as a "C" field. Will this be corrected in the next version?</td></tr>
<tr><td>3I</td><td>4</td><td>Ofwat response to query #101: “We agree that “spot“ should be changed to “patch”.” This amendment has not been included in the line definition in the consultation document. Please confirm that it will be included in the next version of RAG 4.10</td></tr>
<tr><td>4B</td><td>3</td><td>Category - please provide definition.</td></tr>
<tr><td>4B</td><td>4</td><td>Maturity type - please provide definition.</td></tr>
<tr><td>4B</td><td>10</td><td>Issue price (per 100) - Please confirm whether this should be net of premium / discount?</td></tr>
</table>

Table	Line number	Issue
4B	17	RPI interest rate % - Please provide definition as field name has been changed from "Real RPI Coupon".
4B	18	CPI interest rate % - Please provide definition as field name has been changed from "Real CPI Coupon".
4B	27	Issuance costs £m (nominal) - Please provide definition as field name has been changed from "Unamortised debt issue costs as at 31 March xxxx".
4C	Various lines	The Shadow RCV calculation currently adjusts for the company share of totex variance, but we believe it should be the inverse (i.e. customers' share).
4C	Various lines	It appears our WN+ allowance for net totex subject to customer sharing includes the £480m conditional allowance funding. In line with your response to this question earlier this year, we understand that both the allowance and the actual totex relating to conditional allowances should be stripped out of this category and moved to totex not subject to customer sharing. Is this correct?
4I	N/a	The proforma for table 4I does not have a column for financial derivatives with a maturity of 0 to 1 years. We queried this last year and you responded saying you would look to add this as an additional column to the 2021-22 table. This has not been done in the consultation documents. Please confirm whether it will be done for the next version of the proforma tables.
4J	1	Ofwat response to query #19: "This reference is incorrect as this is an input cell - we will propose a change for 2021-22 to correct this." The references to tables 4N and 4O have not been removed. Please confirm that this will be corrected in the next version of RAG 4.10.
4K	1	Ofwat response to query #20: "This reference is incorrect as this is an input cell - we will propose a change for 2021-22 to correct this." The references to tables 4N and 4O have not been removed. Please confirm that this will be corrected in the next version of RAG 4.10
4L/4M	All Lines	New cumulative columns have been added to capture actual spend to date against allowed expenditure to date and the allowed expenditure total for the AMP. Will there be any guidance on how these should be populated? (The RAG talks about lines not columns.)
4L/4M	Various lines	Please can you clarify the expected data source of the allowed expenditure per project.

Table	Line number	Issue
4P	1,2,3	Ofwat response to query #1: "Yes the same 3 categories are analysed as revenue in 2E and costs in 4P. I would not expect that there would be any activity for bioresources here and so I agree we could look to delete that column in 4P for 2021-22." This amendment has not been included in the consultation documents. Please confirm whether it will be done for the next version of the proforma tables.
4S and 4F	Various lines	Please can you clarify whether any overlap between the green recovery project capex disclosed in 4S and 4F (major projects) should be reported in both tables?
5A	18	Ofwat response to query #132: "We will remove the reference to 'bankside storage facilities' from 5A.18 as we consider reference to pumped storage reservoirs sufficient to cover these assets. Bankside storage/balancing reservoirs should fall in network plus (6A) if less than 15 days storage." This hasn't been removed from the consultation definition. Please confirm that it will be corrected in the next version of RAG 4.10.
5A	20	Ofwat response to query #3: "Raw water transport pumping stations should be reported in 6A.3. The reference to 'raw water transport' should be deleted from the 5A.20 definition." This hasn't been removed from the consultation definition. Please confirm that it will be corrected in the next version of RAG 4.10
6D	6 to 10	Previously, Meter Data has only requested a split between Basic ("Dumb" Meters requiring manual reading) and Smart (including AMR and AMI). The proposal has added new columns to detail the Smart Meters: AMR meter (remote read only), AMR meter (AMI upgrade capable), AMI meter. Please could we have some clarity on the following: - Are we being asked for the meter category based on the installation technology or the current read type (i.e., AMR / AMI)? - What does the AMR meter (AMI upgrade capable) category mean? Would this include meters that incorporate technology that allows AMI reading, but are not currently situated in a location where they can be read in AMI mode? - Does the AMR meter (remote read only) category refer to meters that have AMR technology, and have no technology that could allow them to be switched to AMI mode? For example: If we install a Sensus meter with an LCE in an area where there is currently no Arqiva mast coverage, would this fall into the AMI capable category? - Does the AMI meter category refer to meters currently reading in AMI mode? - Does the AMI meter category also include meters which have been read in AMI mode but have gone "stale" at the point data has been captured? - How should we count AMI meters that have gone "stale" (No longer reading in

Table	Line number	Issue
		AMI mode and are under investigation)? - What is your definition of AMR and AMI? - Our interpretation is as follows: - AMI Capable - We have installed meters with communication technology (LCE) but they may not be in a region where there is an active network. These meters would be reading in AMR mode until they connect (to AMI). - AMI Active - Meters which have connected and have read in AMI mode (including those which have consequently gone stale). - AMR - Meters installed with no AMI communication technology installed (LCE) which can be read by walk-by / drive-by. - Should table 6D include volumes associated with Green Economic Recovery (also held in the new table 10A)?
6D	Various lines	Please could we have further guidance on whether classification is based on installation technology or current read type (AMR/AMI)? If this is intended to be based on current read type, then the financial information will be close to impossible to produce with any degree of certainty due to cost data not being captured at this level. If a meter read type changes, then we would presumably be required to perform a prior period reclassification adjustment, which would also require ongoing review of meter install date and applicable historical costs. If classification is based on installation technology, then this should be less problematic; however, as individual meter cost data is not captured at this level this would necessitate the use of a cost apportionment methodology. Please could you confirm whether Ofwat are comfortable with a degree of cost apportionment, rather than job-specific costing, to be used in the completion of this table. Current supply contracts are in the process of being tendered/renewed, thus capability to capture more job-specific costing could be included within this if apportionment is not acceptable – although this would be expected to come with an additional compliance cost.
6F/6D	All Lines	Can further clarification be provided regarding the new table, Table 6F? What is the difference between the information expected in this new table compared with that supplied in Table 6D? Is it just that the cost of Water Efficiency needs to be included?
6E	Various lines	Leakage activity will now need to be grouped under different categories. Please could we have clear guidance in RAG 4 on the definition of each category?

Table	Line number	Issue
10A	7 to 10	Should reporting for GER Meter Installs / Replacements also be included in Table 6D, making 10A a subset of 6D, or should the numbers for GER and non-GER be totally separate (with non GER in 6D and GER in 10A)?
All tables	Various lines	Within the query log for the last year, there are log queries which are to be amended in the proforma/RAGs in the current year. However, not all the queries in the log have been updated in the consultation. Please can you confirm whether all the relevant queries will be corrected in the current year.
Other	N/a	One of the drivers for the reporting changes is to improve performance and make reporting more transparent. On this basis, will there be any requirement to re-state any of the latest annual return or complete any of the new tables for the latest return? If not, then the first year of the AMP will be missing from the reporting in this new format, which may be inconsistent with the above driver.
RAG 3.13 - Para 4.24	N/a	The guidance requires Companies to comment on any expenditure in Tables 4L & 4M (totex enhancement spend) that has been proportionally allocated, either between lines or between Base and Enhancement. A large part of the programme will have costs proportionally allocated in this way; is there any specific guidance on how we should reflect this in our commentary?