

Ofwat P&O Team

Direct line: [REDACTED]

By email

Email: [REDACTED]

Date: 21 July 2021

Dear Ofwat P&O Team

### **Response to consultation on regulatory reporting for 2021-22**

Thank you for the opportunity to comment on your proposals for regulatory reporting for 2021-22. Our key points are:

1. The purpose of reporting is two-fold:

- for companies to report on their current performance; and
- to collect data and information to inform the price review process

Any reporting requirements should consider to what extent they meet these needs.

2. Requirements must consider the regulatory burden of reporting and avoid excessive data being collected. Regulators should work more closely together to ensure requirements are not duplicated, as exemplified by the RAPID model, where regulators are working together to deliver a joined up approach.

3. It is essential that any reporting guidance is clear and timely. The extensive list of RAG queries generated as part of the 2020-21 APR made it very challenging for us to ensure reporting met your requirements. We would be very keen to engage with you in advance of the 2021-22 APR to help resolve any issues with guidance and models in a timely way.

In relation to questions 3 – 6, the industry is developing a response to the reporting of greenhouse gas emissions through Water UK. Please refer to this for our thoughts on these questions. Please see our responses to the other questions below.

Regards

[REDACTED]

**Matt Greenfield**

Director of Economic Regulation

### Q1 What are your views on the proposed changes to the APR tables in A1?

Please see our comments below in relation to the changes proposed. We have also included any specific issues arising from the 2020-21 APR submission process.

Table (s)	Description / Reference	Comment
1F	1F.10 and 4C.24/25	The reference to 4C in table 1F.10 is not correct. It should reference rows 4C.24 and 4C.25. However, for this guidance to make sense, the data in 4C needs to calculate based only on the variance due to efficiency and not the total variance.
2A	2A.3 us operating expenditure which should not include depreciation. The line definition for 2A.3 ("sum of 2C.8 to 2C.12") is therefore incorrect. It should instead be "equal to 2C.8 x (-1)".	This change was suggested in the RAG query log but does not appear to be included in this consultation.
2K	2K.1 table now shows C C C rather than I I C (copies from 2E.10 and 2E.23)  2K.5 table now shows C C C rather than I I C (copies from 2K.1)	The proforma tables issued with the consultation are yet to show this change.
4C	4C.26 "The total customer share of totex over/underspend" in the new proforma is calculated based upon the full difference in RCV for the year.	This could be misleading as it does not factor in variances due to the timing of expenses and is not therefore a full AMP representation of the projected shadow RCV. The share of totex over/underspend based on the efficiency variance may be a more accurate figure.
4I	Proforma for table 4I to include a new column for financial derivatives with a maturity of 0 to 1 years.	This was raised in the RAG query log but has not yet been reflected in the tables.
4L/4M	New columns to capture expenditure versus allowance.	<i>Cumulative expenditure on schemes completed in the report year:</i> please could additional guidance be provided on the method for compiling this information in addition to guidance currently in RAG4 Appendix 4. Is it preferred for costs as at beneficial use date to be reported rather than financial close of the project? Financial close date could be after beneficial use date. Beneficial use date may align to

Table (s)	Description / Reference	Comment
		<p>regulatory commitment dates e.g. WINEP but project costs may be incurred after this date for snagging, monitoring, etc.</p> <p><i>Cumulative expenditure on all schemes to reporting year end:</i> it would be helpful for guidance to be issued to confirm if this is all cumulative expenditure on schemes even if a scheme did not complete in the report year and is due to complete in future. If schemes were reported as complete in previous years but have incurred additional costs do the whole project costs need to be restated?</p> <p><i>Cumulative allowed expenditure on all schemes to reporting year end:</i> It would be helpful if the cumulative allowances for each enhancement driver by year could be provided to populate this new requirement. We are not aware this information has already been provided.</p> <p><i>Cumulative allowed expenditure on all schemes 2020-25:</i> same comment as above. It would be helpful to understand what the cumulative expenditure reported in this table will be used for.</p>
4P	Bioresources to be removed from table.	In the RAG query log, Yorkshire queried if table 4P should mirror table 2E and therefore not include bioresources. The response was that this would be investigated, but there is currently no amendment to the proforma table.
6E	New table for 'Leakage activity breakdown annual reporting'	<p>As leakage is reduced to ever lower and lower levels the cost of maintaining these lower levels and the cost of further reductions will increase and increase and this needs to be modelled to forecast future maintaining and reducing costs which will be higher than those recorded in the past. We look forward to further engagement with the cost assessment working group.</p> <p>We would recommend a full 'Consistency of Reporting' project similar to the <a href="https://www.ofwat.gov.uk/reports-and-publications/leakage-reporting-guidance/">Reporting-guidance-leakage.pdf (ofwat.gov.uk)</a> for leakage expenditure reporting.</p> <p>As well as providing guidance on defining total expenditure and how to proportion costs delivering multiple benefits and allocating supporting costs; guidance on the</p>

Table (s)	Description / Reference	Comment
		<p>methodology of splitting costs between “Maintaining” and “Reducing” leakage would also be beneficial.</p> <p>We suggest consideration should be given to reporting expenditure on a three year average basis to even out seasonal variations and to account for the time lag between making certain types of leakage reduction investments and not seeing the full benefits until future years.</p>
6F	New table for ‘WRMP annual reporting on delivery - non-leakage activities’	<p>The consultation document states “understanding costs and benefits of these supply-demand balance schemes will be important for companies in developing “best-value” plans to ensure future drought resilience”.</p> <p>These numbers are already being prepared as part of the WRMP process to feed into WRMP best value planning, where costs and benefits of which will be finalised to feed into the decision-making in January/February 2022. As such, reporting on these values subsequently (e.g. in 2022) does not aid in the process, as suggested.</p>
7F	New table for P removal following CMA recommendations.	<p>Our phosphorus removal strategy includes catchment permitting (CP) and catchment nutrient balancing (CNB).</p> <p>For CP sites, as well as a site-specific phosphorus permit we also have a stretch target, to achieve an overall catchment load target as agreed with the EA. For this AMP, for two sites in the WINEP the permit value is remaining unchanged but the stretch target will be tightened. Please can it be confirmed which value should be included against the cost drivers.</p> <p>We suggest consideration be given to how phosphorus removal from nature-based solutions is captured. Our costs associated for CNB are being reported against Additional Lines in Table 4M, but no details of the total quantum of phosphorus removed.</p>
10A	New table for Green recovery non-cost data.	It is hard to comment on the exact specifications as they are all to be confirmed with those companies who are delivering a programme of work through the green recovery.

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10B	New table for Green recovery water outcomes data.	However, we would question if it is all automatically fed from other tables if it is necessary to further increase the number of tables and regulatory burden of the APR.
10C	New table for Green recovery wastewater outcomes data.	
RAG 3	The reference to condition P should be paragraph 14 at the end of the financial year	This was raised in the RAG query log.

**Q2 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?**

Our further comments reflect the position set out in our response from the 2019-20 RAGs consultation, repeated below for completeness.

*To what extent do you agree or disagree with these proposals and why?*

We agree broadly with the proposals set out, namely:

- a strengthened approach to climate change mitigation and adaptation,
- monitoring greenhouse gas emissions and progress in a consistent way
- recognising existing work e.g. Discover Water, net zero activity
- inclusion of greenhouse gas emissions in the APRs
- joint working between Ofwat and the water companies.

At Wessex Water, we have reported on our greenhouse gas emissions for more than twenty years. This practice has become more formalised and able to both inform decision making and respond to growing stakeholder interests. Consistent methods of greenhouse gas emissions monitoring and reporting have helped, and we agree that this data should be included in APRs.

However, as well as being consistent across companies, any additional reporting should not add to the regulatory burden. Therefore, any further reporting should build on and use current data and, as much as possible, use the same rules as current reporting. All water companies capture annual operational GHG emissions (whether or not they are included in the APR). This is informing the 'net zero carbon by 2030' commitment. Overall, we believe that reporting against the net zero carbon commitment will need to be on the basis of net emissions (rather than gross emissions).

Could companies publish annual gross and net greenhouse gas emissions (in tCO<sub>2</sub>e) for both water and wastewater? Could this be done for both operational and embedded emissions?

*Operational emissions*

Annual operational GHG emission accounting is well established through the UKWIR Carbon Accounting Workbook (CAW). The CAW provides the opportunity to break operational emissions down into gross and net emissions, for water and wastewater, by source and by type of greenhouse gas if required.

*Embedded emissions*

Currently, embedded carbon emissions are outside of the scope of the net zero carbon commitment. Industry standard reporting is yet to be put in place for embedded emissions and will require significant work.

Wessex Water are not yet in a position to be able to provide accurate reporting on embedded GHG emissions for the 2020-21 reporting year. Nonetheless, we agree it is important to begin reporting these emissions to inform future targets as we move towards holistic climate change mitigation. We feel strongly that an industry approach to, and methodology for, reporting embedded carbon is necessary. Measurement and reporting of embedded emissions should be approached in a consistent manner; an industry approach that is equivalent to the operational CAW would be ideal. If companies take separate

pathways to measuring these emissions the result could be duplicated efforts producing numbers that lack comparability. We would therefore appreciate more guidance on requirements for embedded emissions reporting e.g. with respect to reporting boundaries and the use of existing data sources. We are currently in the process of adopting an embodied carbon estimation tool that would enable some level of reporting in 2020-21, albeit without a high confidence grade at present.

**Q3 Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?**

Please see Water UK response.

**Q4 What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?**

As set out above, we would appreciate more guidance on requirements for embedded emissions reporting, particularly with respect to reporting boundaries and the use of existing data sources. In addition, please see Water UK response.

**Q5 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?**

Please see Water UK response.

**Q6 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*

Please see Water UK response.

**Q7 Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?**

Assuming a profit or return can be calculated relatively simply and consistently, then it would make sense for the allocation to be made in line with the method of calculation used by the valuation office.

**Q8 Does your company jointly own or operate assets with another company?**

Yes – Wimbleball Reservoir and the associated assets.

***Should guidance be included in this area?***

We welcome guidance to improve consistency of reporting but this should defer to existing contractual terms and should not seek to supersede these.

***What specific points should the guidance cover?***

It would be helpful to cover how these jointly owned assets are operated in the event of a drought.