

February 2022

## **Consultation – Changes to the CAW version reference in 2020–25 PCs**

## **Carbon accounting workbook (CAW): consultation on proposed changes to the CAW version referred to in 2020–25 performance commitments (PCs)**

### **Introduction**

This document is about a change we are considering making to the reporting requirement for company performance commitments on greenhouse gas emissions/renewable energy, which we set in our final determination of price limits for 2020–25 (PR19).

Northumbrian Water, SES Water, Southern Water, Thames Water, Wessex Water, and Yorkshire Water have bespoke performance commitments with financial incentives to reduce their greenhouse gas emissions/ produce renewable energy over the period 2020–2025. Anglian Water, Dŵr Cymru, Portsmouth Water, South East Water and South Staffordshire Water have bespoke performance commitments with non-financial incentives to reduce greenhouse gas emissions/ produce energy over the period 2020–2025. Some of these bespoke PCs also require companies to obtain third party assurance that their data complies with ISO 14064, Part 1.

To ensure that reported improvements were the result of a genuine reduction in greenhouse gas emissions rather than changes in reporting, we required the performance commitments to be reported each year using the same calculations and underlying method. The approach in use at the time was the UK Water Industry Research (UKWIR) Carbon Accounting Workbook (CAW), version 13, May 2019.

At PR19 we made provision for the fact that third party materials referenced in companies' PR19 outcomes appendices may change over the 2020–25 period by including a change control process (contained in annex 2 of the appendices). UKWIR updates the CAW to reflect Government reporting requirements including changes in carbon accounting practices.

During the 2021 in-period ODI determination process companies told us that more recent versions of the CAW have corrected errors that were present in version 13. We also understand that version 16 of the CAW is likely to be published in spring 2022.

We need to carefully consider whether it is appropriate in the circumstances to update the version of the CAW applicable to PR19 performance commitments. One aspect of our consideration is the impact for affected companies, which will depend on the specific design of their bespoke performance commitment (for example whether it is a financial or non-financial incentive).

We set out below a summary of our analysis to date which shows that there are benefits to moving to an updated version of CAW and so we are therefore considering changing performance commitment definitions references to the CAW for all affected companies.

This document seeks views on whether, and how, this reference should be updated.

## Consultation questions

We have considered three approaches for the period 2021–22 to 2024–25, we set out the potential advantages and disadvantages of the options in the table below. In summary, the approaches are:

- Retaining reference to v13 for the remainder of the control period (see option 1)
- Updating the reference to a more recently published version and committing to no further update in the control period. Under this approach we would consider updating to either v15 (see option 2) or v16 (option 3).
- Committing to annual updates (see option 4).

Option	Advantages	Disadvantages
<b>1. No change</b>	Companies continue to use the version (v13) of the CAW specified in their PC definitions. This is consistent with the final determination and across companies and ensures that the reported data for performance commitments only measures company action in reducing carbon emissions. Less likelihood of customer/stakeholder confusion if comparing against the PR19 definition.	Companies would continue to use a version (v13) of the CAW that we understand to have errors in it, for example it may not correctly account for the sale of green gas certificates. Customers and other stakeholders may expect this data to be reported using the most up to date, accurate tools available. By 2025 v13 will have been updated several times and companies will find it more difficult to obtain ISO 14064, Part 1.
<b>2. CAW v15</b>	This has the advantage that it is available now for companies to use and includes corrections to errors identified in version 13 and version 14. Ensuring reported data is more accurate increases transparency. A possible advantage of this option is that any changes to baselines would only be needed once in the 2020–25 period.	Changing versions can make it more difficult for all parties to see which changes to emissions/ renewable energy are the result of company action and which are caused by changes to the methodology for calculating emissions.
<b>3. CAW v16</b>	This would have the advantage of correcting any errors in v13 or v14 as well as including any updates to v15 for reporting 2021–22 performance. A possible advantage of this option is that any changes to baselines would only be needed once in the 2020–25 period.	One disadvantage is that companies will not be able to start using version 16 until it is published, which could be late in the 2021–22 reporting year. In addition, the change in the version of CAW used could make it harder to distinguish which changes are the result of company action and which are not. Additionally, companies might not have the data collection in place to use version 16, if it requires new inputs and would likely mean we would not be able to make a change in time to affect reporting year 2021–22.
<b>4. Update CAW annually</b>	Using the most recent version of the CAW that has been published will have the advantage of always using the most up to date calculation and being consistent with the approach set out in the Regulatory Accounting Guidelines (RAGs). We understand that at least one company supports this option.	This option presents a risk of future versions containing significant changes in methodology that could impact the integrity of the affected performance commitments. Changes may mean that performance over the period cannot easily be compared and understood and increase uncertainty in expected future performance. Option 4 would

	make it more difficult to distinguish company action to reduce emissions from changes driven by updates to the CAW methodology. This option could also mean that changes to baselines would be needed multiple times in the 2020-25 period.
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We do not consider moving to version 14 of the CAW because, if we decide to change version, we think moving to a version that has already been superseded brings less benefits than options two, three and four.

## Our preferred option

Our preferred option is to update the reference once in the price control period. We consider that this would ensure that companies' reporting is more accurate, increasing transparency, and removing known errors contained in version 13. We consider that updating annually, in the context of reporting performance against performance commitments levels set at PR19, would not be appropriate, as it would increase the risk of future versions containing significant changes in methodology that undermine the integrity of the affected performance commitments. It would also likely result in greater difficulty when comparing performance over time and increase uncertainty in expected future performance.

Our preferred option is option 2, updating to CAW version 15. We prefer this option because it corrects errors in version 13 and 14. In addition, because version 15 is already published, its impacts can be understood by companies and applied now to forecast performance. Using version 15 instead of version 13 should also make gaining external accreditation (such as ISO 14064) more attainable. Customers will benefit from more accurate reporting with a more up to date methodology being used and better targeted incentives.

We propose to introduce this change to apply from 2021-22 for reporting against these performance commitments, with no change to the 2020-21 reported performance.

## Accounting for update in reported performance

As we set out on page 56 of the final PR19 methodology, "ODI payments will only relate to real performance changes and not definitional, methodological or data changes". All options except "no change" are likely to result in changes to calculated greenhouse gas emissions which are not the result of company action. As set out below we are asking affected companies to estimate what impact any change would have on reported performance and/ or the PC baselines. If, following this consultation, we change the CAW version used for 2021-22 PC reporting, we could ask companies to explain in their annual performance report how much change has resulted from company action and how much from changing workbooks. Alternatively, we could ask for companies to reset

baselines to ensure that through methodological or data changes, altering the version of CAW does not materially make the PCLs more or less challenging.

## Responding to this consultation

We welcome responses to this consultation from all parties. We specifically ask the companies with performance commitments that refer to CAW v13 to comment on:

1. Whether they agree with our proposal
2. How the change in reporting to use the CAW version 15 is likely to change their reported performance for relevant performance commitments
3. Whether changing the version of CAW requires an update to their baselines to retain a comparable degree of stretch.

We seek views on this consultation by 7 March 2022. Please send responses to OfwatPandO@ofwat.gov.uk, with the subject ‘Response to Consultation on updating CAW version PCs’.

We will publish responses to this consultation on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk), unless you indicate that you would like your response to remain unpublished.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

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Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA  
Phone: 0121 644 7500

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