

June 2022

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

## Introduction

In February 2022 we consulted on a potential change to the definitions of company performance commitments (PCs) on greenhouse gas emissions/ renewable energy, which we set in our final determination of price limits for 2020-25 (PR19). This document sets out our decisions in light of the consultation responses.

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 renewable 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 recognised 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. There are also updates to CAW to align with standards such as ISO 14064.

During the 2021 in-period ODI determination process companies told us that more recent versions of the CAW corrected errors present in version 13, and, in some cases, this had a material impact on reported performance. We wanted to understand whether this impact was material for all companies with PCs relating to CAW. We have carefully considered whether to update the version of the CAW applicable to PR19 performance commitments in light of the consultation responses we received.

This document sets out our final decision.

## Our February consultation

In our [Consultation---Changes-to-the-CAW-version-reference-in-2020-25-PCs.pdf \(ofwat.gov.uk\)](#) we considered four approaches for how we take into account changes to CAW during the period 2021-22 to 2024-25. In summary, the options were:

- Option 1 - Retaining reference to v13 for the remainder of the control period
- Option 2 - Updating the reference to a more recently published version (v15) and committing to no further update in the control period
- Option 3 - Updating the reference to a more recently published version (v16) and committing to no further update in the control period
- Option 4 - Committing to annual updates.

We did not consider moving to version 14 of the CAW because it had already been superseded. In our February 2022 consultation, we said our preferred option was option 2, updating to CAW version 15. We preferred this option because:

- It corrects errors in version 13 and 14
- It was already published; its impacts were understood and it could be applied to forecast performance
- Version 15 was consistent with external accreditation (such as ISO 14064)
- Customers would benefit from more accurate reporting with a more up to date methodology being used and better targeted incentives.

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. Where we decide to change the version of CAW used, we are ensuring that this does not make the PCs materially more or less challenging.

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

### Changes since our 14 February 2022 consultation

Since we issued our consultation, UKWIR released v16 of CAW to companies on 21 February 2022. When we consulted on the version of CAW to use, we were not aware that v16 would be available so soon. As a result, our final decisions reflect that uncertainty over v16 no longer applies. CAW v16 has been released to companies, and they understand how to use it and we understand that it will be published on the

UKWIR website shortly. Although the differences between v15 and v16 are not that substantial, it is preferable to use the latest version of CAW that companies have access to.

## Respondents' views

We received responses to the consultation from eleven water companies. Ten of these companies (Anglian Water, Northumbrian Water, SES Water, Thames Water, Wessex Water, Dŵr Cymru, Portsmouth Water, South East Water, South Staffordshire Water and Yorkshire Water) have PCs that refer to CAW. Southern Water was the only company with a PC referring to CAW that did not respond to the consultation. One company without a PC referring to CAW (United Utilities) chose to respond due to the implications of this issue on PCs that may apply in the 2025–30 period. We summarise the key points of the responses in the table below:

| Company                   | Performance Commitment    | Unique ref.                 | Summarised response   |
|---------------------------|---------------------------|-----------------------------|---|
| Anglian Water             | Operational carbon        | PR19ANH_24                  | Favour annual updates but prefers v16 to v13 or v15. Said it has reported on annually updated versions of CAW historically. Also referred to a market-based approach. |
| Dŵr Cymru                 | Energy self sufficiency   | PR19WSH_Ft3                 | Supported proposed change to v15 but no impact on reported performance.   |
| Northumbrian Water        | Greenhouse gas emissions  | PR19NES_BES21               | Favour annual updates but considers v15/16 to be an improvement on v13. Considers the errors in v13 to be material.   |
| Portsmouth Water          | Carbon                    | PR19PRT_PRT-Network Plus-09 | No preference expressed. Primary concern was that the baseline, targets and reported performance should all be derived consistently.                                  |
| SES Water                 | Greenhouse gas emissions  | PR19SES_E.2                 | Favour annual updates but said a change to CAW v15 would have no significant impact on reported performance.  |
| Southern Water            | Renewable generation      | PR19SRN_BIO01               | No response.  |
| South East Water          | Greenhouse gas emissions  | PR19SEW_H.4                 | Changing to v15 has no material impact on performance but whatever we decide we should do so quickly.   |
| South Staffordshire Water | Carbon emissions          | PR19SSC_C8                  | Favours either v15 or annual updates. No material impact on performance.  |
| Thames Water              | Renewable energy produced | PR19TMS_EWS03               | Favour annual updates but prefers v16 to v13. No material impact on performance.  |

|                         |                          |            |   |
|-------------------------|--------------------------|------------|---|
| <b>Wessex Water</b>     | Greenhouse gas emissions | PR19WSX_E5 | Favours retaining v13 and notes that the error in version of CAW affects net emissions but not gross emissions. So, the issue does not have a material impact on its performance. |
| <b>Yorkshire Water</b>  | Operational carbon       | PR19YKY_6a | Favours annual update and prefers v16 to v15. Provided detailed analysis showing impact of changes to CAW to be material and how the baseline would need to be altered.           |
| <b>United Utilities</b> | NA                       | NA         | Has no PC referring to CAW in the 2020–25 period but gave a forward-looking response relating to the 2025–30 period.  |

## Our assessment and decisions

We have considered views from all respondents, and we set out our decisions and reasoning below for affected bespoke commitments from 2021–22 (year 2) onwards.

### Decision making criteria

In deciding whether we should change performance commitments we considered the requirements set out in Annex 2 of companies’ PR19 outcomes and performance commitment appendices. Our assessment reflected the fact that this only affects bespoke PCs, not common PCs. Bespoke PCs are less comparable and require us to consider the individual circumstances of each performance commitment. In each case, we specifically considered:

- Whether changing the version of CAW would impact the reported PC. For example, the errors in CAW v13 may affect some PCs but not others
- Whether the change would give a material benefit in the interests of customers or the environment
- Consistency of reporting over the price control period i.e. is it still possible to see trends in performance over the 2020–25 period?
- Consistency with our PR19 final determination i.e. we would not want to alter the PCs set at PR19 unless there is compelling evidence to do so.

### Our decisions

We set out our decisions with their reasons for each company in appendix 1. In summary, we will revise the definition of the performance commitments for Anglian Water, Northumbrian Water and Yorkshire Water, to require the Carbon Accounting Workbook version 16 to be used. We are asking these three companies to reset baselines to ensure that altering the version of CAW does not materially make the PCLs (performance commitment levels) more or less challenging. For other companies, the definitions remain unchanged.

Although several companies' preferred option was for annual updates of CAW, we are not introducing this. As we described in the original consultation, automatic annual updates of CAW present a risk of future versions containing significant changes in methodology that could impact the integrity of the affected performance commitments; it is important that we consider the impact of any revised version before deciding whether we should make a change. For example, changes may mean that performance over the period cannot easily be compared and understood, and automatic updates could increase uncertainty in expected future performance making it more difficult to distinguish genuine company action to reduce emissions from changes driven by updates to the CAW methodology. This reduces transparency for stakeholders. This option could also mean that changes to baselines would be needed multiple times in the 2020-25 period. The reason we consulted on this issue was that the errors in CAW v13 were material for some companies' PCs and we needed to check if this applied to all related PCs. We did not consult on this topic simply because there had been updates to CAW.

### Next steps

For the three companies with revised reporting requirements, we will publish an updated change log on our [PR19 Outcomes performance commitments – changes and corrections](#) website. The change logs will contain the changes to performance commitment definitions as specified in appendices two to four of this document. Each company with a revised performance commitment will be required to revise its baseline, so that the baseline and the reported performance use a consistent methodology.

## 1.1 Appendix 1

**Table 1: Our assessment and decisions**

| Company                          | Performance Commitment    | Unique ref.                 | Assessment decision/ reason  |
|----------------------------------|---------------------------|-----------------------------|--|
| <b>Anglian Water</b>             | Operational carbon        | PR19ANH_24                  | Reference to CAWv13 changed to CAWv16. The company reported 2020–21 performance in line with the updated version of the CAW rather than its PR19 PC definition. Given that the PC has a non-financial ODI, we are not requiring the company to restate its 2020–21 performance. However, we are changing the PC definition to report against v16, as this will mean that there is increased customer/ stakeholder transparency and trends in performance are more visible. |
| <b>Dŵr Cymru</b>                 | Energy self sufficiency   | PR19WSH_Ft3                 | Unchanged because change would not materially be in customers interests. This PC definition means a change in CAW has no effect on reported PC performance.  |
| <b>Northumbrian Water</b>        | Greenhouse gas emissions  | PR19NES_BES21               | Reference to CAWv13 changed to CAWv16. This update strengthens the incentives on the company to improve, its greenhouse gas reporting. This significant improvement to incentives is in customers' interests.  |
| <b>Portsmouth Water</b>          | Carbon                    | PR19PRT_PRT-Network Plus-09 | Unchanged because change would not materially be in customers interests.   |
| <b>SES Water</b>                 | Greenhouse gas emissions  | PR19SES_E.2                 | Unchanged because change would not materially be in customers interests. Change of CAW would not have a significant impact on reported performance.  |
| <b>Southern Water</b>            | Renewable generation      | PR19SRN_BIO01               | Unchanged because change would not materially be in customers interests. This PC measures renewable energy generation and not emissions.   |
| <b>South East Water</b>          | Greenhouse gas emissions  | PR19SEW_H.4                 | Unchanged because change would not materially be in customers interests. Change of CAW would not have a material impact on reported performance.   |
| <b>South Staffordshire Water</b> | Carbon emissions          | PR19SSC_C8                  | Unchanged because change would not materially be in customers interests. Change of CAW would not have a material impact on reported performance.   |
| <b>Thames Water</b>              | Renewable energy produced | PR19TMS_EWS03               | Unchanged because change would not materially be in customers interests. This PC measures renewable energy generation and not emissions.   |
| <b>Wessex Water</b>              | Greenhouse gas emissions  | PR19WSX_E5                  | Unchanged because change would not materially be in customers interests. Change of CAW would not have a material impact on reported performance.   |
| <b>Yorkshire Water</b>           | Operational carbon        | PR19YKY_6a                  | Reference to CAWv13 changed to CAWv16. This update strengthens the incentives on the   |

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|                         |    |    |   |
|-------------------------|----|----|---|
|                         |    |    | company to improve, its greenhouse gas reporting. This significant improvement to incentives is in customers' interests |
| <b>United Utilities</b> | NA | NA | NA - this company provided a consultation response but has no PC in 2020-25 referring to CAW.                           |

## Appendix 2

We include below the changes we are proposing to make in Anglian Water's PR19 final determinations – Outcomes performance commitment appendix document. These changes will be effective for the 2021-22 (year 2) reporting year onwards.

### For Anglian Water – Operational carbon PC PR19ANH\_24

In the 'Performance commitment definition and parameters' table for:

|   |  |
|---|--|
| <b>Additional detail on measurement units</b> | Operational carbon is calculated through the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook published on 8 May 2019 and reported in tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) emissions. The measure will report the percentage change in operational carbon emissions in each reporting year against the 2019- 20 baseline emissions. |
|---|--|

Read:

|   |   |
|---|---|
| <b>Additional detail on measurement units</b> | Operational carbon is calculated through <b>version 16</b> of the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook and reported in tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) emissions. The measure will report the percentage change in operational carbon emissions in each reporting year against the 2019- 20 baseline emissions. |
|---|---|

## Appendix 3

We include below the changes we are proposing to make in Northumbrian Water's PR19 final determinations – Outcomes performance commitment appendix document. These changes will be effective for the 2021-22 (year 2) reporting year onwards..

### For Northumbrian Water – Greenhouse gas emissions PC PR19NES\_BES21

In the 'Performance commitment definition and parameters' table for:

|   |   |
|---|---|
| <b>Additional detail on measurement units</b> | Emissions are calculated through the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook published on 8 May 2019. |
|---|---|

Read:

|   |   |
|---|---|
| <b>Additional detail on measurement units</b> | Emissions are calculated through version 16 of the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook. |
|---|---|

## Appendix 4

We include below the changes we are proposing to make in Yorkshire Water's PR19 final determinations – Outcomes performance commitment appendix document. These changes will be effective for the 2021-22 (year 2) reporting year onwards.

### For Yorkshire Water – Operational carbon PC PR19YKY\_6a

In the 'Performance commitment definition and parameters' table for:

|   |  |
|---|--|
| <b>Additional detail on measurement units</b> | Operational carbon is calculated through the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook published on 8 May 2019 and reported in tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) emissions. The measure will report the percentage change in operational carbon emissions in each reporting year against the 2019- 20 baseline emissions. |
|---|--|

Read:

|   |  |
|---|--|
| <b>Additional detail on measurement units</b> | Operational carbon is calculated through version 16 of the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook and reported in tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) emissions. The measure will report the percentage change in operational carbon emissions in each reporting year against the 2019- 20 baseline emissions. |
|---|--|

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