

By email to: Annual.reporting@ofwat.gov.uk

Ofwat,
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6th March 2023

Dear Ofwat

Consultation on PR24 operational greenhouse gas emissions performance commitments definitions – February 2023

We welcome the publication of the Performance Commitment definition for Operational Greenhouse Gas Emissions. We appreciate the opportunity to comment and look forward to working with Ofwat through subsequent stages of the development of this PC. We are pleased to submit the following response.

Question 1 - Do you have any comments on our proposal to include additional reporting categories in the definitions of our PR24 operational GHG emission PCs?

Although we are supportive of reporting and reducing the emissions associated with chemical use, we do not feel there is currently sufficient maturity within the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook (CAW) reporting to enable this to be done effectively and robustly. The option to use bespoke emissions factors adds increasing complexity which would need further clarification.

Effectively and efficiently reducing the emissions associated with chemicals will require a greater and more accurate understanding of the associated emissions, including between suppliers. We are concerned this information will not be available in time for the beginning of 2025.

Our preference would be to continue to report on the use of chemicals, building maturity in the areas throughout AMP8 ahead of introduction to the performance commitment in AMP9.

We welcome the introduction of insets from nature-based solutions which will have an important role to play in managing residual emissions.

Question 2 - Do you have any comments on our proposal to allow companies to claim GHG emissions reductions when trading bioresources?

N/A

Question 3 - Do you have any comments on our proposal to use one version of the CAW throughout PR24 to assess progress against the PCs?

We are supportive of the use of one static version of the CAW throughout the PR24 price control period (AMP8) to assess progress against the two common operational GHG emissions PCs with the assumption that this forms the basis of static Performance Commitment reporting, outside of the annually updated CAW.

The CAW is an evolving framework which is updated annually as emission factors evolve and accounting methods improve. We therefore assume it is Ofwat's intention that they support the industry's proposal to create a bespoke PR24 PC reporting tool, used to report the information outlined in Question 1 of this consultation based on the principles of the CAW, fixed for the 5-year period using the same national grid emissions factors each year. This tool will be separate to, but aligned with, the version of the CAW in place at Final Determination (most likely to be CAW v18).

If the above understanding is the intention of this proposal, then we agree that static and standard reporting tool throughout AMP8 would be most appropriate for assessing company performance consistently against the PC. However, this does pose a number of potential disadvantages:

- Emissions reporting for the operational emissions performance commitment and Annual Performance Reporting (APR) will deviate as the CAW updates each year of AMP8. This is not a new reporting challenge; we already have different reporting boundaries and definitions in our Annual Report for the Task Force for Climate-related Financial Disclosure (TCFD) to our reporting in our APR. We would welcome support from Ofwat to help manage this increasingly complex message to customers and stakeholders.
- We are concerned that the use of fixed emissions factors could drive unintended behaviours by incentivising emissions reductions which do not align to the carbon management hierarchy.

We assume, by having a fixed reporting tool based on the principles of the CAW, that the 2021/22 PC baseline (using the fixed national grid emissions factor for 2021-22) will remain the same. The baseline for the performance commitment will need to be calculated once the PC tool is available. Once the tool is available, the 2021/22 data will be used in the tool to generate the data. This will enable consistent comparison between the baseline and AMP8 reporting.

If the definition continues to use a fixed emissions for electricity, we recommend that a consistent fixed emissions factor is used for chemicals. The current emissions factors used for chemicals are not transparent and could lead to a divergence in reporting.

We have a general preference for stability and consistency within an AMP, with only rare exceptions where there is a highly material value requiring revision. This is needed to avoid

further complexity for Ofwat and companies to manage, and potential confusion for customers and stakeholders trying to monitor our performance.

Question 4 - Which version of the CAW do you consider it is feasible to use throughout PR24 and why?

We agree with the intention of the water industry to have a separate tool for the calculations required for reporting for the common operational GHG emissions PCs and that the tool should be aligned with the version of the CAW in place at Final Determination. We assume the CAW that will be in place at Final Determination will be version 18.

The methodologies contained within the PC reporting tool should be linked to the principles of CAW v18 and be retained for the duration of AMP8 for the common operational GHG emissions performance commitment reporting in line with the above proposal to use one static version of the tool throughout AMP8, which we strongly support. We assume the annual emissions reporting in the APR will use later CAW versions with evolving methodologies and the latest emissions factors, which we also support.

We have provided the above responses to help support Ofwat finalise the appropriate measures. We are happy to discuss any of these points further and look forward to receiving confirmation of the definition in due course.

Yours sincerely

Greg Cameron

Head of Energy Management (PR24 Outcomes Lead)