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Dear Ofwat

Anglian Water response to Ofwat's consultation on PR24 operational greenhouse gas emissions performance commitment definitions

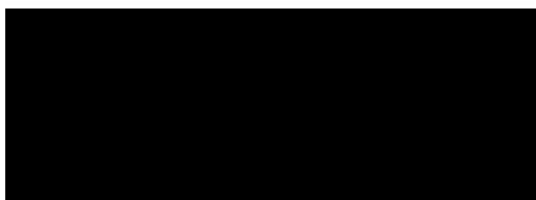
We welcome this opportunity to comment on the proposed definitions for the PR24 common water and wastewater operational greenhouse gas (GHG) emissions performance commitments and support the introduction of these performance commitments (PCs) for the PR24 price control period. Our response to this consultation builds on the constructive discussions our respective teams have been having on how net zero is addressed at PR24.

These measures present a fantastic opportunity for the regulator to incentivise carbon neutrality in the sector through the outcomes regime, and support companies in delivering the sector's Public Interest Commitment net zero carbon target by 2030. Ofwat's emphasis on delivering core services in a low carbon way strongly aligns to our Purpose, which codifies our commitment to accelerate decarbonisation of our operations and capital programmes for the benefit of our customers and the environment – more detail of our ambition can be found in 'Our net zero strategy to 2030' document published in 2021. Since first setting ambitious goals to reduce our operational and capital carbon emissions in 2010, we have continued to be proactive in our approach to carbon management. We were delighted to receive funding through Ofwat's innovation fund for two carbon focused projects in 2021 (Whole Life Carbon Design and Triple Carbon Reduction), as well as to play a formal role at the UN Climate Change Conference 2021 in Glasgow. We have also tracked our progress on carbon reduction through our AMP6 and AMP7 operational carbon and embedded carbon PCs.

While supportive of the introduction of the operational GHG emissions PCs, the current proposal for normalisation based on volume of water and wastewater treated does not resolve all our concerns regarding comparison of company performance. The volume of water distributed and waste water treated are not the only explanatory factor for emissions. Topographies and geographies act as drivers for differences in emission levels in supplying water and treating wastewater between companies. Factors such as gravity facilitating transport of water through the network or the distance required to pump water will influence the number of assets and pumps or the energy required to provide the same level of service. Additionally, to some extent the scope one process emissions associated with wastewater treatment may also be dependent in part by factors outside of management control. Therefore, the carbon intensity of companies carrying out the same statutory functions will innately vary, which normalisation based on volume alone is too blunt to reflect. Normalisation of this PC must take account of factors that impact emissions which go beyond just scale.

Comments to the questions posed within the consultation are provided below. As always, we would be happy to discuss any of the points set out in this response.

Yours faithfully



Darren Rice
Regulation Director

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?

The sector is making continuous, ground-breaking progress in reducing GHG emissions associated with operations, especially regarding process emissions which constitute a significant proportion of the sector's total emissions. Although we support the reporting categories proposed for inclusion within the definition, we recommend reporting should also be flexible enough to incorporate new reporting categories or discard irrelevant reporting categories to ensure companies are incentivised to use the innovative approaches and technologies that may become more readily available up to 2030. This will incentivise the sector to continue to seek and use the best approaches for low emission transport, renewable power, and utilising by-products of wastewater treatment.

We support Ofwat's proposal to include emissions from the production of purchased chemicals for use in regulated activities within the definition of these PCs. However, we note there remains high levels of uncertainty regarding use of chemicals to treat and remove per-and polyfluoroalkyl (PFAS), as the scale of the challenge, the processes for treating PFAS to meet the Drinking Water Inspectorates' PFAS guidelines, and the emissions associated with treatment are still emerging. As our understanding of PFAS is in its infancy, it remains unclear if this is a challenge that faces all companies equally or if the concentration of PFAS is disproportionately spread between operating regions, which would materially impact the amount of carbon associated with treatment for each company. In addition, between now and the end of AMP8 increased research into pollution may identify 'new' pollutants that will require treatment, with the scale of emissions associated with treatment in this eventuality also unknown. This will need to be reflected within these PCs as more detail becomes available.

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

The proposals to ensure that the performance commitment do not inhibit market activity are welcomed.

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?

Although we understand Ofwat's desire to only capture improvements that are the result of genuine reductions in GHG emissions linked to company actions, we recommend that the version of the CAW should not be static throughout the PR24 price control period and the PCs should use updated versions to assess progress when released. To remove the possibility of reporting changes influencing performance data, the emissions factors for the grid and process emissions could be fixed at a point in time (e.g. the final year of AMP7 or first year of AMP8). Using the most up-to-date version of the CAW in turn encourages companies to utilise the most up-to-date technologies and approaches as they become widely available or affordable, allowing companies to benefit from the latest innovations in this space.

One example of this is hydrogen; although hydrogen is currently not widely used to generate low-carbon power, expected improvements in storage technologies may make this fuel the most cost-efficient and low emission option for energy generation by the end of AMP8. As such, if a fixed version of the CAW is used this could disincentivise companies implementing novel technologies that become available in the next seven years until the PR29 price control period.

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

The most recent version of the CAW available at the time of the PR24 Final Determinations should be used. As per our response to Q3, we recommend the emission factors rather than the CAW should be fixed so as not to not inhibit the use of innovative technologies as they become available.