

**NORTHUMBRIAN WATER
RESPONSE: CONSULTATION ON
REGULATORY REPORTING FOR
2022/23**

MARCH 2023

INTRODUCTION

We recognise the importance of annual reporting as a means through which regulators, customers and stakeholders can hold us to account for our performance and our progress towards delivering the commitments set out in our business plan. We welcome the opportunity to respond to this consultation and set out our answers to the consultation questions below.

Question 1: What are your views on the proposed changes to the APR tables listed in appendix A3 and set out in full in RAG 4?

We note that again additional data requirements have been added and will further increase the scale and complexity of the reporting framework.

We refer Ofwat to previous correspondence on the increasing data burden, most specifically correspondence to Aileen Armstrong and John Russel dated July 2021.

We have a small number of requests for clarity on specific items of requested data in table 7E:

Table	Line	Issue
7E	Line 7E.10	Are these sites 1) those with a WINEP UIMP5 driver only or 2) locations where an issue has been flagged and we have been required to improve FPF performance?
7E	Line 7E.11	Is this 1) solely the UIMP6 investment or do we also include 2) UIMP6 sites plus any growth investment resulting in increased storm tank capacity?
7E	Line 7E.12	Again, is this for UIMP6 schemes only or other growth schemes?

Question 2: Is reporting the average time of low pressure feasible for the 2022-23?

While we have the technical capability to report the average time of low pressure, we are resource constrained and using resource in this way would not be in the best interests of customers. On this basis we would say reporting this information is not feasible.

Question 3: What resource is required to report this information initially and on an ongoing basis?

We would require capital expenditure for additional pressure loggers and operational expenditure to resource the additional analytical headcount. There would also be a cost to cover operational time to deploy and maintain loggers in the field.

Question 4: Do you think that reporting both the number of properties below the minimum standard of pressure, and the average time of low pressure provides useful information?

We agree that both metrics provide useful information but as above, reporting the average time of low pressure is not feasible due to resource constraints.

The consultation states 'All companies report information on the number of properties with pressure below the minimum standard in the year on the Discover Water website'. We have not been providing this information because it hasn't been one of our PR19 performance commitments. The 'minimum standard' referred to is 15m pressure and we have not been collecting this data since 2020.

Throughout 2020-25 we are compliant with and paying Guaranteed Standards of Service (GSS) for low pressure at 7m pressure hence are able to report on this basis.

We recognise that managing pressure is important for our customers and to manage environmental impact and are part of an industry wide project with Water Research Centre (WRC) looking at how pressure should be reported across the industry. The project aims to agree on a meaningful method by summer 2023.

Question 5: Do you have any comments on our approach to continue to align the GHG reporting requirements to the latest version of the Carbon Accounting Workbook?

We agree reporting should be aligned to the latest Carbon Accounting Workbook.

The CAW is continuously updated and improved to reflect the latest information on measurement and estimation techniques, the latest available scientific evidence, and to correct previous errors. Therefore, the latest version should be used in all contexts.

For consistency of reporting, and to make sure both figures are as robust as possible, the latest version of the CAW should be used for reporting for the APR and incentivising performance against the proposed PR24 common performance commitment for operational GHG emissions.

Question 6: Do you have any comments on our reporting guidance for GHG intensity ratios?

We don't consider anything intrinsically wrong with the GHG intensity calculations proposed, and these will enable some comparison of how rapidly companies improve their performance. However, these normalisations won't give meaningful insight into how well each company is doing relative to its peers in an absolute sense, as they don't take sufficient account of differing geographies.

Geographical differences have a significant impact on intensity ratios. For example, on a location basis where electrical energy is a major contributor to emissions, those companies with a larger number of gravity-fed treatment works and networks would expect a lower emission intensity.

In addition to geographical differences, the condition and type of assets will have a significant bearing on the intensity ratios. For example, some wastewater companies' networks allow significant water ingress into the sewage network. As this rainwater dilutes the sewage, on a market basis where green electricity is purchased, the emissions per Ml of sewage treated will be lower for companies that have significant issues in this area, and so make the performance of these companies appear lower.

While it is helpful to try to normalise performance through calculating intensity ratios, caution should be applied when using these or presenting them to stakeholders.

Question 7: Do you have any comments on the proposal to expand the scope of mandatory reporting for operational GHG emissions?

We consider that emissions reporting should account for scope 1, scope 2 and scope 3.

We recommend that Ofwat supports the sector to report all Scope 3 emissions in line with best practice, not just select components as is prescribed in the consultation. We consider the proposed approach blurs the boundaries between "operational" and "capital emissions" and may hinder Ofwat's understanding of regulatory decisions on company emissions.

The best way for us to improve our reporting of scope 3 emissions as a sector would be for all companies to publish their Scope 3 emissions methodology. Each company will currently have its own bespoke approach,

and there may be areas that differ by company, but there would be value in sharing approaches for moving towards a consistent reporting of scope 3 emissions for 2025-30.

Clarity is needed on our approach as a sector to reporting downstream scope 3 emissions and scope 4 (avoided) emissions.

Additionally, we require clarity on how we can demonstrate reductions in supply chain emissions. For example, if the emissions reporting requirements dictate that we must use a sector level emissions factor for a particular chemical or material, then we will only be incentivised to reduce the volume of the relevant chemical/material we use

If instead we are permitted to use an alternative bespoke company specific emissions factor with individual suppliers, then we will be able to work with our supply chain to purchase lower emissions chemicals/materials and be able to account for this in our reporting and any related incentives. This would support innovation in the sector but require significant effort to validate any supplier's emission abatement claims.

Question 8: Do you have any comments on the introduction of our mandatory framework for the reporting of embedded emissions?

See above – we should report all scope 3 emissions and Ofwat should cease separating emissions into operational, chemicals and embedded as this is an unclear definition with potential to omit emissions sources.

We don't support a bespoke emissions reporting approach for the water sector that is inconsistent with the established approach to scope 1, 2 and 3 reporting.

Question 9: Do you have any comments on distinguishing between construction and maintenance activities for the reporting of capital project emissions?

It isn't clear what would be achieved by distinguishing between construction and maintenance activities. Emissions from either will contribute to climate change from the same physical processes.

We consider it is more valuable to develop robust measurement of emissions across all activities and incentivise their reduction collectively, so that they are reduced in the most efficient way, rather than aligning reporting to different price control activities.

Reporting both construction and maintenance emissions together is valuable as it will add to our understanding of our lifecycle emissions as a sector.

Question 10: What are the key challenges that need to be considered and addressed in introducing a rating system designed to facilitate increased standardisation and continual improvement in the reporting of embedded emissions?

We consider it inappropriate to introduce a RAG rating system on reporting requirements being consulted on just two months before the end of the reporting period. Providing a RAG rating against this year's reporting at such short notice will not provide any meaningful information on our ability as a sector to implement robust reporting requirements. This will simply imply that new reporting requirements are being introduced with too little notice.

The amount of resource required to implement the additional required reporting is significant. Requiring this at short notice at the stage where we are finalising our business plans is a distraction from making sure our business plans for customers and the environment are high quality.

Standardisation would be better achieved by requiring companies to publish the models they use for their emissions reporting from APR 2023/24. A self-certified RAG rating will not provide the level of actionable additional information that sharing our approaches to calculating our emissions would.

Finally, there does not appear currently to be sufficient guidance on how the RAG rating should be assessed for our auditors to produce the RAG rating. As set out above, the proposed separation of embedded emissions does not follow international standards yet compliance with such international standards is required to attain “green”.

Instead of introducing the RAG rating requirement for 2022/23 we would propose instead that Ofwat:

- Provides clear guidance now that aligns with Scope 1, 2 and 3 emissions definitions and international guidance.
- Allows a full reporting year for us to implement the framework required to robustly report against those standards.
- Requires water companies to publish our emissions calculation models at 2023/24 to demonstrate how we have aligned with the guidance.

Question 11: Are there any particular frameworks or approaches our traffic light system should consider in determining differing levels of progress and what expected progress should look like?

We strongly encourage Ofwat to follow any suitable international reporting standard. We are agnostic as to which standard Ofwat adopts if it is robust with high degrees of public confidence, for example Science Based Targets initiative (SBTi).

We consider that Ofwat underestimates the complexity of GHG reporting and that customers would be best served by Ofwat requiring companies to follow a recognised reporting standard as opposed to a bespoke sector specific alternative. A recognised standard will provide:

- A valid framework for companies to operate in.
- Guidance which auditors can rely on in validating emissions.
- Principles for use by UKWIR in developing carbon accounting tools.
- Minimal risk of over/under accounting of emissions locally within the sector and at UK level.

Failure to align to an international standard will require that Ofwat a) produces comprehensive guidance, b) gives detailed input into future carbon accounting tools in place of the Carbon Accounting Workbook, and c) dynamically responds to changes to the ODI caused by external factors. This is inefficient and not a role Ofwat has historically adopted.

Question 12: Do you have any comments on requesting a SWOT analysis that covers both operational and embedded emissions?

As discussed above, we consider any analysis that is required should be made against Scope 1, 2 and 3 emissions definitions, not operational and embedded emissions.

Question 13: Do you have any comments on our proposed changes to disclosures in the Statement on dividend policy and explanation of dividends paid set out in RAG 3?

We support the transparent reporting of dividends in the APR. The new RAG3 guidance is in line with our new dividend policy. It is important to separate the requirements for transparency, which we support, from the de facto control of dividends. We also refer Ofwat to correspondence between John Russell and Andrew Beaver in late 2022, most specifically a letter from Andrew to John dated 8 December 2022. We welcome

Ofwat's comments and challenge in relation to our new dividend policy which we hope will only make the policy better for customers.

Question 14: Do you have any comments on our proposed changes to disclosures in the Statement on executive pay and performance set out in RAG 3?

We have no further comments on the proposed changes to disclosures in the Statement on executive pay and performance set out in RAG 3 and refer Ofwat to correspondence between Andrew Hunter (NWG Chair) and David Black, dated 11 January 2023.