

3rd March 2023



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Please ask for [REDACTED]
Our Ref JJ/APR23
Your Ref

Dear [REDACTED],

Response to Consultation on Regulatory Reporting for the 2022-23 Reporting Year

Thank you for the opportunity to make comments on the proposed changes to reporting requirements for the annual performance report (APR) for 2022-23 onwards. We have set out our response to each question 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?

Please find below our comments, provided in the requested template.

Table	Line	Issue
Table 1E	7	The definition refers to the RCV in 4C.26. However, 4C.26 is 'Total customer share of totex over/under spend.' This reference should be 4C.31.
Table 4H	2, 3, 6 and 12	For Havant Thicket, we propose that where RCV is used in the financial ratios, we also calculate these ratios with reference to the Havant Thicket 'Shadow RCV.' This would be shown as a restatement in an extra column in Table 4H.

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

Reporting average time of low pressure would require additional work but is feasible. We would require guidance to ensure that all water companies report average time consistently and recommend that a working group of industry experts be convened to write this guidance. It is unlikely that this could be achieved for APR23 but would be achievable by APR24.

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

To report average time of low pressure would require additional analysis time, but this would unlikely result in additional FTE for Portsmouth Water as we have exceptionally small numbers of properties that receive low pressure. This may not be the same for other water companies.

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 do not feel that reporting average time of low pressure provides further useful information. We feel that no customer should experience low pressure, and most certainly without good reason (such as only experiencing low pressure during an operational incident, or during a period of exceptional demand). Rather than additional reporting, water company effort should be focused on reducing customers that currently experience low pressure.

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

We find the Carbon Accounting Workbook (CAW) an extremely useful way to standardise the reporting of operational carbon emissions. We would support the use of whichever version of the workbook is available from 1 April 2023 to give us sufficient time to prepare the data for the APR.

We are disappointed that market-based emissions reductions are not incentivised by Ofwat's decision to report location-only emissions. We intend to use market-based methods towards our net zero commitment, in addition to reducing our own emissions. In our view this allows emissions reductions to be made where it is most cost effective to do so (i.e., at the point of generation).

We are also concerned that introducing a disparity in reporting approaches will confuse stakeholders and undermine the net zero commitments, even though we are in-line with GB-wide greenhouse gas reporting rules.

Keeping emissions factors fixed at a single point in time takes an extra step beyond that and is not something we support. It would mean the emissions we report to Ofwat did not reflect real-world emissions. Given the pace of change and attention being paid to net zero, we expect emissions factors to fall for a wide range of activities, not just grid emissions. Using a single CAW would not reflect this.

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

As a water only company, we have focussed our response on the following guidance: Emissions per MI of treated water: $[\text{net GHG emissions (location-based) in kgCO}_2\text{e}] / [(\text{distribution input}) \times \text{number of days in the year}]$

We agree that this calculation is straightforward and would look to take this data from the CAW.

We have however identified a situation that would result in a material increase in operational GHG emissions but no increase in distribution input (DI). We would like further guidance on how to ensure this allows like for like comparison and does not result in meaningless comparisons.

Specifically, the Havant Thicket reservoir project will result in an increase in our operational carbon emissions, but we will not supply the water from it, i.e., it will not result in an increase in our reported DI. We would therefore expect a step increase in our reported ratio when it is commissioned. We therefore ask Ofwat to ensure that the guidance and its reporting metrics accommodate this type of scenario.

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

We support taking responsibility for our wider carbon footprint. Including the proposed emissions sources in our reporting will help monitor other impacts and be more transparent.

We are also keen to ensure that data collection is proportionate to the emissions impact.

For chemicals, we already collect data on chemicals usage and, if we can use emissions estimates produced in the CAW, support their inclusion in our reporting.

For waste disposal, as a water only company, emissions relating to bioresources are not applicable. We ask Ofwat to provide explicit confirmation that reporting on other waste streams is not necessary at this stage.

For fuel and energy-related activities, if we can rely on the same activity data we already collect and take the emissions data from the CAW, we support the inclusion of upstream extraction and production emissions from fuels used to generate purchased electricity and heat.

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

Embedded emissions have not been an area of focus for us historically. We have only recently begun to assess the data that we will need to do this effectively.

We had expected that by the time reporting was mandated, a best practice industry-wide tool (equivalent to the CAW) would be available. Not only would this give us confidence in our approach, it would also materially reduce the considerable cost and time needed to begin to evaluate the embedded GHG impact of our activities.

While we understand UKWIR is in the process of developing a set of common emissions factors, that project will not conclude until 2024.

Given our starting point, we support an extended mandatory framework for the reporting of embedded emissions only if there is a standardised calculation tool.

We agree that progress needs to be made and could support a requirement to focus on boundary setting and data collection in the short term. This would allow us time to establish which emissions sources to include, engage our supply chain and fill in the data gaps. We would then support mandatory carbon reporting at the point the standardised factors are available via the UKWIR project.

We are keen to work with other water only companies to ensure we are all aligned.

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

At this point, we do not have first-hand experience of this reporting to use in our response.

We anticipate that there would be challenges in splitting out the use of some materials between various stages of a project's lifecycle. This would particularly be true where a project ran in several phases (so was partly in-use, while also under construction).

We therefore would not support separate reporting at this stage.

We ask Ofwat to allow us to follow best practice guidance e.g., the relevant ISO or water-industry agreed approach, rather than introduce its own new guidance in this area. This would allow a proportionate calculation methodology that accounts for an assessment of materiality.

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 are keen to be transparent about our progress in this area. We are also keen that our reporting reflects our relative size and carbon impact. As a small water-only company, we would expect that the resource we can invest in carbon accounting is less than larger business. We also expect that larger business also have a more material impact through wastewater treatment.

It important that any 'rating' system compares different companies on a like-for-like basis. A framework that fails to account for these differences will not drive improvement; it will simply demonstrate these differences.

Given the limited scale of our impact, we do not agree that a small water only company should be aiming to achieve the same scale of carbon reporting as larger wastewater companies in the sector. It should be proportionate.

We must aim to get better every year. We must become able to demonstrate our impact in a way that reflects our business and supports our customers. We must also be transparent in our calculations and improve our data over time.

We do not agree that a traffic light system does this. In the absence of unlimited resources, our progress will take time and sitting in a 'red' bucket despite considerable effort will not be an incentive.

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

Instead of traffic lights, we ask that Ofwat reporting instead supports a collaborative approach that allows companies to share best practice and learn from each other.

To incentivise change, reporting should reflect year-on-year progress rather than absolute achievement. This would demonstrate our relative improvement, rather than permanently referring back to a low baseline, which we cannot change.

A maturity matrix (e.g., the Asset Management Maturity Matrix, AMMA) could allow us to monitor changes in a range of areas and reflect our specific position.

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

We agree that the SWOT is a useful summary of the key areas and helps to retain focus.

However, we do not support a combined SWOT for operational and embedded emissions. This is due to the different maturity levels of our related reporting and the scope of the SWOT.

We have made strong progress on our operational carbon emissions and are concerned this would get lost in a combined SWOT.

In addition, the opportunities/threats that we should consider under embedded emissions will be vastly different to those for operational emissions and failing to distinguish between the two risks missing key points to highlight.

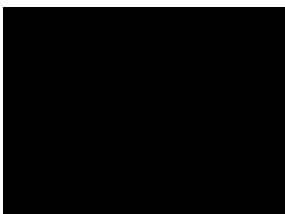
Question 13 - Do you have any comments on our proposed changes to disclosures in the Statement on dividend policy and explanation of dividends paid set out in RAG 3?

We have no comments.

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 comments.

Yours sincerely,



Regulation Manager