ST Classification: OFFICIAL COMMERCIAL

Consultation on regulatory reporting for the 2022-23 reporting year

Response on behalf of Severn Trent Water & Hafren Dyfrdwy

3 March 2023

RHAGOROL O'R TAP
WONDERFUL ON TAP

SEVERN TRENT

HAFREN DYFRDWY
severn dee

Contents

Consultation on regulatory reporting for the 2022/23 reporting year

This response is provided on behalf of both Severn Trent Water and Hafren Dyfrdwy. In the document, references to "we" or "our" should be read as referring to both companies. Where necessary we have referenced the individual companies within our response to make clear where the response is not relevant to both companies.

Summary Response

We welcome this opportunity to comment on Ofwat's proposals for regulatory reporting for 2022/23 and have set out our responses to the 14 consultation questions below.

Our views on the proposed changes to the APR tables are provided in the table at Appendix A and we would be supportive of Ofwat running a similar RAG query process to that following APR22, we would just ask that it be run earlier in the year.

We do not think the average time of low pressure, nor the number of properties below the minimum standard of pressure provides useful information. We are confident that our current measure and the systems we use are fundamentally changing the way we view low pressure. We recognise you are not currently proposing low pressure as a common PC for AMP8, but we would champion the industry adopting a common measure of low-pressure performance in line with our AMP7 bespoke commitment because it reflects a priority raised by customers.

Greenhouse gas emissions must be reduced, and we welcome Ofwat's ongoing attention on how best to drive further reduction of direct and indirect emissions in our sector. This aligns well with the commitments that Severn Trent plc has made in our carbon triple pledge and our commitment to science-based carbon reduction targets. You can find more detail on these in our 2022 sustainability report and we have provided detailed responses to questions 5 to 12.

We do not have any comments on the other changes to RAG 3 and are supportive of the additional level of disclosure required in these areas across the sector.

[redacted]
Group Financial Controller

Q1. What are your views on the proposed changes to the APR tables listed in Appendix A3 and set out in full in RAG 4?

Our views on the proposed changes are provided in the table at Appendix A.

Q2. Is reporting the average time of low pressure feasible for the 2022/23?

We do not consider it is feasible to report the average time of low pressure for the 2022/23 report year. Our pressure data is captured in our core system (Netbase). We would have to redefine our approach to handling the data and include a number of high level assumptions in order to calculate an average time for a low pressure event. As such, reporting any value for the 2022/23 report year would require a significant number of assumptions to be made, resulting in a low level of confidence in any value reported.

Q3. What resource is required to report this information initially and on an ongoing basis?

A significant effort would be required to reconfigure Netbase, extract and analyse the data, produce a robust reporting methodology and get this all assured to the required standard of our Board within the time available to report this year. As noted above, any reported value is likely to have a low level of confidence applied to it. Additionally, we would be unlikely to be able to reconfigure the system in time to start capturing data from April 2023 to allow a robust value to be reporting for 2023/24.

Reporting on an ongoing basis would add significant cost in terms of system reconfiguration, analysis and assurance costs to the programme. We do not consider it would drive any noticeable benefit for customers in terms of their experience of low pressure. When accommodating growth in our network, strategic reinforcement is required to ensure that both current and new customer experience good service. Our current low pressure measures ensure strategic reinforcements are sufficient to prevent creating low pressure risk.

Q4. 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?

In short, we do not think either measure provides useful information. We are confident that our current measure and the systems we use are fundamentally changing the way we view low pressure.

As part of our PR19 plan we proposed a bespoke measure, persistent low pressure. We consider the old DG2 measure outdated and treated all customers equally, irrespective of whether they experienced one day or 365 days of low pressure. It also focusses on solutions that tackle multiple property issues only. Moving to our bespoke measure has driven us to find innovative and localised solutions to address pressure issues for individual properties that would historically have remained on the DG2 register year after year. While ensuring we tackle those wider, multi-property issues, it also has the additional benefit of ensuring future investment more accurately considers the risk of low pressure. Our final designs then include elements of strategic reinforcement to prevent creating low pressure risk.

Moving towards a calculated average time figure would only be possible if we agreed a standard set of underlying criteria across the industry, much as we did with leakage and supply interruptions during PR19. For example, we would need to ensure a minimum level of logger activity, considering both population density and topography, to ensure companies with lower levels of logging were not advantaged in this new measure. We are concerned about the comparability of data that is perceived to be aligned but isn't. In preparation for PR19 the convergence project showed that a number of measures that had been reported consistently across the industry were not fully aligned to allow true comparison. We believe there is a danger that reporting low pressure data without an industry-wide alignment of methodology and assumptions will lead to inappropriate comparisons.

We would champion the industry adopting a common measure of low-pressure performance in line with our AMP7 bespoke commitment. The methodology we use is an evolution of the DG2 measure and should be easy to implement for all companies without significant system reconfiguration or investment.

In summary, we do not support reporting either of these measures as they are proposed. We are supportive of a common metric on low pressure as it is often noted as one of the most experienced service failures by customers and recommend Ofwat considers our AMP7 persistent low-pressure measure.

Q5. 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 are supportive of industry collaboration on the Carbon Accounting Workbook ('CAW') and would encourage Ofwat's engagement with the working group to shape future developments as one of the main stakeholders of its outputs. We do however intend to diverge from the CAW calculations on process and fugitive emissions, as we did last year, as our research shows the calculated emissions factors from our process emissions monitoring program are more representative of our impact and in alignment with current science, including IPCC factors.

Q6. Do you have any comments on our reporting guidance for GHG intensity ratios?

We understand the reasoning behind normalisation of emissions for comparison and see it as a useful metric for identifying a company's trend but with some caveats. The inter-company differences in geography and catchment characteristics, technology types and regional demand variations mean that a normalised measure isn't a good proxy of emissions drivers. Waste flow to full treatment bears little relation to load or energy demand for example and improvements in leakage would see an adverse effect on water emissions intensity ratio.

Q7. Do you have any comments on the proposal to expand the scope of mandatory reporting for operational GHG emissions?

We agree with an expansion of Scope 3 reporting in closer convergence with the GHG Protocol categories. While we are able to report these emissions, we would highlight that the emissions factors used for water industry chemicals in the CAW and the methodology for sludge to land emissions are currently under review as they are dated. This is likely to lead to material movement in reported emissions in the coming years as these emissions sources become better understood. In addition, we would like to clarify for the avoidance of double counting that chemicals should not be reported as part of Scope 3 purchased goods and services value?

Q8. Do you have any comments on the introduction of our mandatory framework for the reporting of embedded emissions?

We are encouraged to see the introduction of mandatory embedded emissions reporting following our voluntary reporting last year. We believe the proposed continuous improvement approach suggested is the correct approach while we work with stakeholders and our supply chain to improve data quality and accuracy.

As we have seen with our process emissions monitoring project, as data quality and understanding of sources have improved year on year, we have seen material year on year movements in our reported values and baseline. We expect this pattern to be replicated as we develop our embedded carbon reporting and transition from spend based analysis to activity data; therefore, the insight that can be drawn in the early years could be of limited used for comparisons between companies and tracking progress within each company, and therefore would caution on how such figures might be used in future.

Q9. Do you have any comments on distinguishing between construction and maintenance activities for the reporting of capital project emissions?

Distinguishing between construction and maintenance is extremely challenging and we would request further guidance on where you view the boundaries between these two activities. We believe it would be beneficial to use standardised terminology such as that used in PAS2080 and clear guidance on which elements of the asset's lifecycle from B2-B5 (Maintenance/ Repair/ Replacement/ Refurbishment) you wish to see captured under capital maintenance reporting. In addition, it would be beneficial to understand if you see the boundaries of capital construction carbon and capital maintenance carbon aligning or diverging from financial RAG lines 4D.8, 4D.9, 4E.8, 4E.9, 4J.15, 4J.16, 4K.15 and 4K.16.

We would also like to understand the date periods you would like the data to cover as it can be challenging to split multi-year projects into financial year periods under current data constraints. Is it acceptable to report data relating to all schemes commissioned in a financial year or only emissions associated with work undertaken in that period?

Q10. 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?

The challenge we envisage is the subjective nature of the measures as companies are likely to be at various levels of progress on the different measures. There is unlikely to be a neat fit of progress against each RAG status with a company potentially matching the criteria across the rating grading. We don’t see this as a blocker to rolling out the rating system if companies are transparent in how they have chosen the rating they have, potentially justified via the SWOT submission.

Q11. 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 currently use ISO14064-3 for our GHG data assurance and PAS2080 is the methodology we intend to align our capital reporting to. These are recognised standards that can be externally verified and can help to inform wider stakeholders of the credibility of our emissions performance. We are open to other standards and methodologies being suggested if more appropriate and will also enable wider recognition of credible, assured reporting to wider stakeholders Two items that aren't considered in the current proposed measures and may add additional context are:

1. data type i.e., spend based estimation versus activity-based data
2. Confidence level/ error margin around the accuracy of the data

Q12. Do you have any comments on requesting a SWOT analysis that covers both operational and embedded emissions?

We voluntarily reported our operational and embedded SWOT analysis last year and are supportive of the change to it becoming mandatory. We believe the insight and context it allows us to add to our reported values is beneficial to stakeholders.

Q13. 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 do not have any comment on the proposed changes to dividend policy disclosures set out in this consultation.

However, we would like to take this opportunity to reiterate our concerns about Ofwat's previously stated expectation, that benefits that accrue to equity that are not linked to operational performance, such as the consequences of high inflation on fixed rate debt should be retained or reinvested by the company and not distributed as outperformance.

We do not agree with Ofwat's expectation. This prescriptive approach to distributions is inconsistent with Ofwat's often stated view, that it considers both dividend policies and capital structures to be matters for companies to decide. Companies should both be responsible for and manage the consequences (both positive and negative) of the capital structures they adopt and distributions they make. As we said in our response to the consultation on Ofwat's PR24 draft methodology we "consider PR24 should support the listed companies' ability to provide the stable, predictable dividend returns that are valued by investors and which benefit customers through a relatively competitive cost of equity".

Q14. Do you have any comments on our proposed changes to disclosures in the Statement on executive pay and performance set out in RAG 3?

Whilst we are supportive of the proposed disclosures in the statement on executive pay and performance set out in RAG 3, there is significant repetition between these and the disclosures required in the Directors' Remuneration Report of the Annual Report. Our preference would be to cross reference to some of the disclosures in the Annual Report where duplicated.

Appendix A – Response to Q1 regarding APR tables in A3

Table	Line	Issue
1D		
1E		
1F		
2A	5	For wholesale, should 2A.5 be equal to 2B.14 minus 2B.15 or just 2B.14? For 2A.5, shouldn't grants and contributions (2B.15) be deducted from Total operating expenditure (2B.14)?
2B		
3F		
4B	Column 19	For column definition of line 19, shouldn't the reference only be SONIA and not 3-month SONIA?
4C		
4D		
4E		
4H		
4I		
4L	1-7	For line definitions, shouldn't the reference only be SONIA and not 6-month SONIA?
4M		
4O		
4P		
4Q	2	Line definition is "This relates to new connections (as defined in 4Q.1) in respect of non-household properties". 4Q.1 has an updated definition, it is assumed this change also applies also to 4Q.2
4R		
4V		
4W		
5A		
6A	29-30	Can we request further clarification confirming that grey and green solutions refer to traditional 'end-of-pipe' concrete and nature-based options respectively. Also confirmation that enhancement expenditure refers to any sources with an on-going capital project funded via an UME
6B		
6C		
6D	13	In the RAG4.11 document the measure description states household customers however the definition mentions business customers. The lines 'Residential meters renewed – supply demand balance benefit' & 'Business meters renewed – supply demand balance benefit' have been deleted however both lines are still included in Green Recovery Table 10A, is this correct?.
7D		
7E		
7F		
9A	2	Is line 9A.2 total income collected from the customers to fund the innovation competitions 'for the year', or is it cumulative income to reporting year end?
11A		