



Consultation on regulatory
reporting for the 2022-23
reporting year
Thames Water Response

2 March 2023

Q1: Proposed changes to APR

Please see the table below with our comments using your prescribed format. Where we have not commented on a change, we do not anticipate that we will have issues providing the information in the format requested.

Table	Line	Issue/Comment
1F	1	<p>In the published 2022/23 APR template cells H10, I10, J10, N10, O10 and P10 (1F.1) are greyed out. We would query whether these cells should contain formulas in line with the final 2021/22 APR template.</p> <p>It would be helpful if Ofwat could confirm if these will be updated when issued.</p>
4B	Var	<p><u>Maturity Date column</u></p> <p>Guidelines on table 1E para 1.2 include:</p> <p><i>“Figures for this table should be derived using granular data on financial instruments embedded in company balance sheets. Companies should include all debt relevant to the regulated company, even where this has been taken out by an associate or financing subsidiary. This granular data should be set out in Table 4B: ‘Analysis of debt’, which we are requesting from companies as part of their submission.”</i></p> <p>Additionally, Table 1E provides a definition for ‘Weighted average years to maturity’, which includes following:</p> <p><i>“Where a debt instrument is associated with an interest rate hedge with a different maturity date to the underlying debt, the maturity should be based on the debt instrument.”</i></p> <p>Based on the above two paragraphs of guidance, to keep Table 4B and 1E consistent, we include the maturity date of the underlying debt instruments as the maturity of the derivative on the column ‘Maturity Date’ of table 4B rather than the maturity date of the derivative.</p> <p>Separately the maturity month and year is included on the column ‘Instrument’ of Table 4B. We had also included a footnote on 31 March 2022 Table 4B submission:</p> <p><i>“Where a derivative has been used as a hedge, the maturity date of the underlying debt instruments have been used for compiling years to maturity.”</i></p> <p>It would be helpful if Ofwat could confirm that the above treatment (as per the note above) is consistent with what is expected?</p> <p><u>Instrument identifier column</u></p> <p>Earlier this year, as requested by Ofwat, we included reference numbers (on column ‘Instrument identifier’ of table 4B) for derivatives so that paying leg and receiving leg of swaps can be identified.</p> <p>Please note that providing this additional information on our swaps (i.e., matching the two legs), if made public, could be commercially sensitive so we would not want to provide this on any submissions which are to be published externally.</p>

Table	Line	Issue/Comment
		<p>Further information column</p> <p>During November 2022, when we provided additional information based on swap category, we also included detailed information on column 'Further information' of table 4B, regarding interest rates and margin changes. This was based on the following guideline:</p> <p><i>“Category C - Variable margin swaps</i> <i>This is derivatives that have a change in margin over SONIA (previously LIBOR) or a change in fixed rate at any point over the life of the swap on either the pay or receive leg. The swap category detail must explain the dates when the swap margin changes, what it changes to and must clearly explain whether the margin is changing on the pay or receive leg.”</i></p> <p>Please note that providing this additional information on our swaps (i.e., providing details of margin changes), if made public, could be commercially sensitive so we would not want to provide this on any submissions which are to be published externally.</p>
4L	Var	<p>The subtotal in line 66 does not include the subtotals in lines 56, 59 & 62 – please could Ofwat confirm whether this is as intended?</p> <p>Please could you set out further guidance on the difference between lines 48-50 from 51-53 and 57-59?</p>
6A	Var	<p>For lines 6A.29 and 6A.30, please could Ofwat confirm if the definition is per site and that we can we still consider all London sites together as interdependent due to the ring main?</p> <p>If so, please can Ofwat provide further guidance on which PWPC day is the limit for considering the impact of an enhancement expenditure in London or will it be all expenditures to date on the ring main?</p>
6C	25/26	<p>Line 25 is already measured internally, but line 26 will require additional data processing, estimation and development. Pressure is not constantly monitored across the whole network. Once the logger is deployed to check normal pressure has resumed, there will be a 30 day monitoring period before removing the property from the low pressure register.</p> <p>Some estimation may be needed to calculate this measure retrospectively for this year, whereas moving forward a new approach could be developed in line with this definition to calculate our results more accurately, such as updating the asset standard to increase the use of GPRS loggers. However, this would be subject to operational resourcing and budget constraints.</p> <p>Please could Ofwat clarify if Section 65 properties should be excluded as these historical records will skew the overall average?</p> <p>Please could Ofwat also clarify whether the commentary should cover loggers deployed for customer low pressure appointments or any pressure logger on the network such as CPPs, District Meters etc?</p>
7F	Var	<p>The guidance for lines 4M.22 to 4M.24 state that these lines relate to 'effective storage in the network', however in the excel tables, line 4M.22 is for 'storage in the network'.</p>

Table	Line	Issue/Comment
		Also the guidance for 4M.19 to 4M.21 states that these lines relate to 'storage in the network', however in the excel tables, line 4M.20 is for 'effective storage in the network'. Please could Ofwat clarify which lines should be 'effective storage in the network' and 'storage in the network'?
11A	Var	Please see our response to questions 5 -12 below.

Q2-4 Low pressure: Table 6C

2	Is reporting the average time of low pressure feasible for the 2022-23?
	<p>Yes, with the caveat that some estimation will be needed as the required data is not currently included in routine data collection – other measures, such as improving leakage, have been prioritised. Pressure is not constantly monitored across the whole network so we would not have high confidence in the accuracy of the measure. We may have to provide two different sets; CPPs incident of low pressure have constant monitoring whereas estimation would be needed for CALPs separately, potentially with a RAG status (Green for CPP and Orange or Red for CALPs) due to gaps in data.</p> <p>The guidance states that no exclusions should be made, However, we note that the Section 65 properties will have a large impact on this calculation. We could either constantly monitor the Section 65s, install CPPs / monitoring points very close to the Section 65 properties or pay for pumps to remove from the register, but all of these options would require financing and project timescales.</p> <p>The measure states that we should calculate duration under threshold x properties under threshold / connected properties to get hh:mm:ss. However for CALP appointment incidents we do not constantly monitor the whole event so cannot calculate the duration accurately at present. Every CALP appointment would need a GPRS logger system so we can have live monitoring.</p>
3	What resource is required to report this information initially and on an ongoing basis?
	<p>We have a register of properties impacted by low pressure which would be extended if this measure was reported on an ongoing basis to capture the start and end times of the low pressure period more accurately. Initially, it may be necessary to retrospectively apply some estimates and averages to the data.</p> <p>The logger dataset will be substantial as timestamped data is recorded at 15 minute intervals and this may limit processing capabilities. Every CALP appointment would need a GPRS logger system so we can have live monitoring.</p>
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?
	<p>Yes, we can see customer benefits to both of these measures. The requirement for greater focus on measuring low pressure would drive increased efficiencies in tracking and following up on low pressure incidents and support updating the asset standard for loggers to increase the use of GPRS loggers for more accurate monitoring.</p>

Q5-12 Greenhouse gas emissions: Table 11A

Alignment with CAG

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 would support using the latest version of the carbon accounting workbook.
6	Do you have any comments on our reporting guidance for GHG intensity ratios?
	<p>The use of intensity ratios as suggested will not avoid variability of factors such as weather and water demand, that will likely cause changes in the metric unrelated to company's actions. As these factors will vary geographically it will make comparing companies performance using this metric difficult.</p> <p>Additional reporting of market-based intensity ratios would enable Ofwat to consider a full picture of how water companies are able to manage carbon emissions cost-effectively using the market to purchase low carbon energy. We have found that by tackling the emissions associated with electricity this has helped identify and prioritise areas for emissions reduction.</p> <p>Please note that the intensity ratios are calculated in the CAW workbook as a SumProduct of several factors and are not a simple ratio of emissions to flow as the PR24 Data Tables appear to suggest.</p>
7	Do you have any comments on the proposal to expand the scope of mandatory reporting for operational GHG emissions?
	<p><u>Use of chemicals</u></p> <p>We are supportive, in principle, of the inclusion of additional reporting categories in the definitions of the PR24 operational GHG emission PC, to develop a fuller picture of water company emissions. However, we note that there are significant issues with reporting them accurately. We also note that CAW 17 was not updated with the mandatory reporting of chemicals as an objective.</p> <p>The CAW has 37 chemical factors and that does not account for all the chemicals we use.</p> <p>The CAW has a mixture of supplier and industry wide emission factors which could drive variations that are not reflective of actual emissions unless all suppliers report their emissions factors in a consistent way.</p> <p>Some of the Emissions Factors in the CAW are 12 years old and may have changed significantly in that time. Some of them also have very little evidence that the companies can use to support their reporting.</p> <p>Some chemicals and components are sourced from overseas, raising the issue of territorial emissions. The source of the chemicals can change relatively quickly depending on supply and demand making accurate reporting of emissions challenging.</p> <p>The introduction of additional reporting categories, such as chemicals, introduces more emissions that the industry has limited opportunity to directly reduce and can only influence their reduction. The feasibility, deliverability, and affordability of removing emissions associated with these should therefore be acknowledged.</p> <p><u>Waste generated in operations</u></p> <p>We are supportive, in principle, of the inclusion of additional reporting categories in the definitions of the PR24 operational GHG emission PC, to develop a fuller picture of water</p>

	<p>company emissions. We therefore agree that the scope 3 emissions generated by the transportation and treatment of sludge when exporting it to a third party should be included in our reporting.</p> <p>With regard to reporting on emissions from the disposal of sludge to land. We believe that the benefit of using sludge over a manmade fertilizer should be considered and therefore these emissions should not be reported, or an offset included to represent the carbon reduction over using manmade fertilizers.</p> <p><u>Fuel and energy-related activities</u></p> <p>This is not currently included in the CAW emissions factors so will need to be changed. Please clarify if the UK Gov emissions factor will be used.</p>
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Embedded emissions framework

8	<p>Do you have any comments on the introduction of our mandatory framework for the reporting of embedded emissions?</p>
	<p>Given the proposals outlined in Consultation Regulatory Reporting For 2021 22 Responses Document.pdf (ofwat.gov.uk) in October 2021, we were hoping to have an industry-wide workshop or other opportunity for open discussion about the development of these measures before commencing any mandatory requirements. Please could Ofwat advise if this is still a possibility.</p> <p>We do not feel that we currently have sufficient visibility of the proposed framework, such as how we should assess ourselves against a RAG system or whether any numerical responses are required this year.</p> <p><u>From our technical experts, we have the following feedback:</u></p> <p>The term “commissioned” means the project is constructed and ready to be put into operation, while the term cradle-to-gate only covers materials and products up to the point of arrival at site. They are therefore not the same thing. We therefore believe that the total GHG emissions up to the point of commissioning should therefore be ‘cradle-to-built asset’.</p> <p>We are currently not able to extract emissions from construction as a separate element. All emissions are aggregated at a physical asset level (e.g. screen, tank, pump etc.) However, it might be more possible to refer to “cradle-to-gate” in the future as we are intending to require contractors to separately report their material quantities, and on-site fuel/power usage.</p> <p>We believe that the phrase “all capital projects undertaken in the year” is ambiguous. This could mean all projects reaching take over stage in the year or it could mean all embedded GHG emissions emitted from capital projects in the year.</p> <p>Our current working assumption is that Ofwat mean the former as this is more relevant as to when our capital carbon is handed over from our contractors and becomes directly associated with our own activity; this reduces any and reduce the risk of double accounting and the need for any potential complicated adjustment figures at the end of a project.</p> <p>If Ofwat require reporting of all GHG emissions from projects in progress in the year, then this can be estimated with a pro-rated approach, re-adjusted at project completion. We do</p>

	<p>not see any real benefits to this approach though and believe that this may create some confusion in the accounting possibly create the risk of double accounting.</p> <p>We are able to fully report on goods and services purchased this year. Our efforts have been focussed on understanding and reducing operational emissions and understanding and reporting capital carbon emissions until now. We acknowledge that this is an important next step to develop a fuller picture of emissions and acknowledge the need to undertake a full review of our scope 3 inventory to determine the materiality of goods and services purchased, and thereafter develop a sustainable mechanism to report these.</p> <p>We will work towards this and support your aspiration of consistent reporting on embedded emissions by 2027/28 (or earlier).</p>
9	<p>Do you have any comments on distinguishing between construction and maintenance activities for the reporting of capital project emissions?</p>
	<p>We approached this distinction by proceeding by accounting as per delivery offices:</p> <ul style="list-style-type: none"> • Construction: Capital Delivery and Developer Services • Capital Maintenance: Infrastructure Alliance and Directly Managed Capital. <p>If further granularity is required, we will need to investigate our capability to report this information</p>
10	<p>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?</p>
	<p>We are not clear on the business or customer benefits of implementing the rating system at this stage of measurement maturity before clear standards have been agreed.</p> <p>The levels of recognition for the provision of emissions data we believe is set the wrong way round. Ofwat's proposed levels seem to imply that it believes that getting supply chain emissions (cradle-to-gate) for materials and products may be easier than getting construction process emissions. That is potentially true for civil related materials but not the case for MEICA or nature based solutions where there is often a very complex and opaque supply chain that contributes to the embedded carbon.</p> <p>We therefore recommend that:</p> <ul style="list-style-type: none"> • Red = provision of construction related emissions only. • Amber = provision of partial cradle-to-build emissions (i.e., cradle to gate contains significant omissions or levels of estimation) • Green = provision of full cradle-to-build emissions. <p>The word 'clear' is used in various places as a differentiator between levels. Please could Ofwat define this in objective and auditable terms?</p> <p>The overall approach feels subjective, and we are not clear on the purpose or how it will be used. The industry requires an industry standard tool that will allow quantitative comparison of data across the companies, in order to achieve your aspiration of consistent reporting on embedded emissions by 2027/28 (or earlier).</p> <p>We believe that the progression between the levels for standards is too skewed. External verification or certification (not accreditation) is the final step of implementing standards and so should only appear at the Green level. We therefore recommend:</p> <ul style="list-style-type: none"> • Red = No engagement with standards • Amber = Engagement with standards, externally verified.

	<ul style="list-style-type: none"> • Green = Alignment with standards, externally certified. <p>Possible other areas to include in the RAG assessment, which could introduce best practise from other industries include:</p> <ul style="list-style-type: none"> • Leadership commitment/governance • Recognition of year-on-year reductions/progress to target • Recognition of future ambition or adjustments to future targets if current performance is below target • Evidence of review/lessons learnt/continual improvement.
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?
	The guidance within PAS 2080 and total carbon guidance from UKWIR could be considered.

SWOT analysis

12	Do you have any comments on requesting a SWOT analysis that covers both operational and embedded emissions?
	We provided a voluntary SWOT for embedded emissions in AR22 and anticipate that we will be able to meet the reporting requirements for this year.

Q13 Dividend policy and explanation of dividends paid

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?
	<p>We acknowledge that Ofwat's 2022/23 APR assessment concluded that our dividend policy, application of the policy and the dividend narrative published was in line with their current expectations.</p> <p>We are committed to being open and transparent about our decisions, and therefore consistent with last year's APR, we will seek to clearly explain how performance for customers and the environment has been taken account of in dividend decisions.</p>

Q14 Executive pay and performance

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?
	<p>Thames Water is supportive of the drive to be transparent about how performance related pay decisions are determined and we are confident that we can meet the proposed reporting requirements in the Annual Performance Report.</p> <p>Where we would appreciate ongoing dialogue, as indicated in Jell Shedden's letter to David Black and Jenny Block of 6th January 2023, is recognising Thames Water's need to reward performance against delivery of its eight-year turnaround plan which is critical to the long-term interests of our customers, communities and the environment.</p> <p>Thames Water must attract, incentivise and retain highly capable leaders who can deliver the sustained performance improvement required. To do this we must remain competitive in the market and have a remuneration structure which rewards stretching performance improvements which may still fall short of its ODIs.</p>

