

[REDACTED]
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

By email only to: annual.reporting@ofwat.gov.uk

Dear [REDACTED]

3 March 2023

Thank you for the opportunity to review and comment on the proposed changes to the Regulatory Accounting Guidelines. Please find attached our responses to the questions posed and any additional observations.

We would like to highlight our disappointment at the late publication of this consultation which has impacted on planning for the upcoming Annual Performance Report (APR). Significant activity is required by Water companies to identify data table ownership, understand reporting requirements, create a reporting process to fulfil the reporting expectations and organise internal and external assurance against all final data, against any new proposals within the consultation.

We therefore request that in future an industry wide consultation on the Regulatory Accounting Guidelines, should take place shortly after the previous APR is published to allow sufficient time to implement guidelines ahead of the publication of the next APR.

We confirm that we are happy for our response to be published.

Should you have any queries regarding this response please do not hesitate to contact me by email on apr@yorkshirewater.co.uk.

Yours sincerely,

[REDACTED]

[REDACTED]

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?3

The table below provides our response to question 1. If we have not made a comment in the table below on a new requirement or change to the RAGs, it is because we have no concerns or do not require further clarification:

Table	Line	Issue
1D	10	We exclude non cash accretion; however we would include a cash paydown of accretion in this line, can you please confirm this is correct?
4W	4	Per the draft tables the formula in 4W.5 requires scheme liabilities to be entered as a positive figure which appears inconsistent with the 4W.5 instructions where a deficit is presented as a negative.
4W	8	On the draft table (was line 4W.7 per the draft tables), this cell required a date input, but the draft table was not formatted for date entry.
5A	30	Specifically which WINEP drivers should be reported under this particular APR line?

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

System and resourcing limitations would make this extremely difficult for us to report for 2022 23. Therefore, we believe that this should be considered for introduction for 2023 24, and specifically discussed within an industry working group to ensure consistency in reporting across the board. This would also give us more time to implement a robust reporting process that we would have high confidence in.

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

Initially: Further understanding is required, regarding what needs to be included/excluded for the reporting of the average time of low. For example, some of our violations are due to system or logger issue, would be expected to be included or excluded? We would need to see if this process could be automated, as current resource would make a manual activity to report this, unachievable. As previously stated, this would take significant time to implement.

Ongoing basis: Following on from above, we would again propose an industry working group/discussion around this specifically, to ensure consistency in reporting. This being introduced for 2023 24 would be more appropriate.

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?

It is clear how this would provide useful information and be more comparable between companies. However, this is reliant on all companies reporting consistently.

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?

In June 2022, it was agreed that we would re-baseline our emissions using CAW v16 per the 'Carbon accounting workbook (CAW): consultation on proposed changes to the CAW version referred to in 2020-25 performance commitments (PCs)' June 2022. This is the version we have used to re-baseline our 2019/20 emissions and report our yearly performance in year 2 of AMP 7, and it was understood that this is the version we would report with to the end of the AMP (unless there were substantive drivers to necessitate a change). Reporting with a consistent version of the CAW ensures our percentage emission reduction over the AMP can be reported on a consistent basis. While it may be possible to re-baseline using later versions of the CAW, this may make it challenging to compare the percentage reduction over time, and may complicate communicating our progress to customers and other stakeholders. Our preference would be to report using the fixed version of the CAW as previously been agreed, and as being consulted on as the approach for reporting during AMP 8.

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

We are supportive of the continued use of GHG intensity ratios. The proposal to move to two intensity ratios does simplify reporting, but there are two related points to consider:

Firstly, we would like to confirm for the wastewater treated intensity ratio, where it is stated to use the 'volume of wastewater received at treatment site' in calculating the Emissions per Ml of sewage treated – there are currently two values within the CAW (see extract below):

Table 1: Extract of CAW v16 showing current GHG intensity ratio values.

C Annual operational GHG intensity ratio values			
16	Operational GHG emissions per Ml of treated water	Emission	kgCO ₂ e
17	Operational GHG emissions per Ml of sewage treated (Flow to Full Treatment)	Emission	kgCO ₂ e
18	Operational GHG emissions per Ml of sewage treated (water distribution input)	Emission	kgCO ₂ e

Can we confirm which of the two intensity ratios, C.17 or C.18, is proposed?

Secondly, we feel that using both ratios provides the best view of GHG emission intensity, taking into account both distributed input and flow to full treatment, the latter reflecting the annual weather variances that also impact plant operation.

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

While we understand the proposal to include chemicals in the APR reporting this year, we believe it is too early to make that inclusion this year and to do so would lead to inconsistent reporting. We expand on this below.

We are supportive of the move to include waste to land emissions related to the disposal of sludge, and the inclusion of Well to Tank emissions associated with fuels, but have comments on how we report this in a manner that does not impact our performance commitment reporting.

As explained in our response to Question 5, we expect, unless otherwise advised, to continue to report using CAW version 16 for the remainder of the AMP, to enable consistent reporting of our operational carbon emissions against our performance commitment.

The proposals set out in sections 13.11 13.20 are understandable as a step towards wider reporting in AMP 8 and beyond however they present several challenges as follows:

1. Unless we re baseline our emissions or these additional elements are accounted for separately, their inclusion would impact our ability to deliver our targeted emission reduction. In this regard, we recommend that any reporting for these expanded areas is reported separately from the emissions reported for our annual performance commitment to avoid the need to re baseline.
2. CAW v16 includes facility to add chemicals but due to the limitations of the included chemicals, does not provide a comprehensive solution. This is in part being addressed in CAW V17, but we have still identified gaps where chemicals in use have no listed emission factors such as MIEX resin. Acquiring this data in a short timeframe will be a challenge. We are of the view that it is too early to report chemicals this year and that to do so would lead to inconsistencies in reporting going forward. We are working with UKWIR and other companies to review the reporting of chemicals, but don't expect this to be fully resolved for reporting this year.
3. With respect to reporting of chemicals based on purchase, we are also of the view that this may inaccurately reflect annual emissions. Companies tend to purchase in bulk and to budget cycles that may not reflect actual consumption. It is possible that numbers may be over inflated where companies have stockpiled chemicals for prudent financial reasons (there has been significant upwards price pressure chemical in the last two years). We also have challenges in determining the actual usage of chemicals, as not all usage is telemetered. The purchase approach is therefore no more or less likely to lead to misreporting, but the data confidence using either approach will be low.

-
4. Additionally, the CAW uses average emissions per chemical that may be outdated and currently does not include specific manufacturer/supplier information. This means there is no incentive to choose one supplier over another based on their emissions intensity and may lead to an over or under statement of emissions.

There is also no distinction between territorial and non territorial emissions at the stage of development, and there is limited guidance for the purpose of our glide paths to net zero whether these are all accountable. It should be noted that we purchase a large proportion of our chemicals from overseas.

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

How we currently report embedded emissions:

We currently measure and report embedded emissions for our bespoke performance commitment 'Capital Carbon and carbon arising from owned land.' We use a calculation based methodology based on in house models built from third party emission factors (Bath Inventory of Carbon and Energy (ICE) database v2) and material and fuel data supplied by contract partners. These models offer greater accuracy than calculations of embedded emissions based solely on spend based emission factors. We calculate embedded emissions throughout the lifecycle of each capital project, beginning with a high level estimate for notional solutions and then refining our calculations iteratively as projects progress through to detailed design and delivery. Following project completion, we calculate a final embedded emissions figure for each project using as built data supplied by our contract partners. We also use these data to update our in house models, which are thus subject to continuous improvement over time. Our approach facilitates reporting on an annual basis by providing an embedded emission figure for all 'in flight' capital projects using the most recent data available in any given reporting year.

Implications of mandatory reporting of embedded emissions on an annual basis:

Based on our experience of reporting embedded emissions to date, we believe clarity will be needed from Ofwat with regards to the approaches to the timing of reporting on embedded emissions. We see two potential approaches as follows:

1. Embedded emissions could be reported for all 'in flight' capital projects approved for delivery within the reporting year based on estimates of embedded emissions at the time of approval and subsequent refinements as projects progress to completion. It should be noted, however, that some large

projects can take several years to reach completion and therefore emission data for a given year may be subject to restatement in future.

2. Embedded emissions could be reported only for projects completed within a given year. This would reduce the degree of uncertainty within reported embedded emissions figures. However, there is likely to be substantial year to year variances in embedded emissions due to the phasing of investment across each AMP, with the potential for low embedded emissions at the start of the AMP and high emissions at the end as projects reach completion. Furthermore, this approach may misrepresent the timing of when emissions actually occurred for projects that span multiple years (e.g. when materials were procured and transported, or fuel use in construction phases).

Our preferred option is **Option 1** as this aligns to our existing reporting and, in our view, provides greater clarity for customers as to the timing of emissions than Option 2.

Purchased Goods and Services

We agree with the principle that reporting on purchased goods and services should be included in embedded emissions reporting, and that should align with wider GHG accounting approaches such as SBTi. The primary method for calculating emissions associated with purchased goods and services is through GHG conversion factors linked to spend categories. However, we note in this area has a range of uncertainties as water companies may adopt different approaches to reporting categories of spend and may also use different GHG conversion factors from a range of third party databases. As such, we recommend any comparisons of purchased goods and services emissions between water companies are treated with an appropriate degree of caution until a more standardised reporting methodology is established.

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

We do not currently report embedded GHG emissions attributed to construction and maintenance activities separately. Given a capital project may include elements of both activities, we would question the value that distinguishing between these would bring and what added insight it would provide.

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 believe a well designed rating system should provide transparency as to the relative maturity of water company approaches to reporting embedded emissions. A key challenge in introducing a rating system is the potential for criteria to insufficiently distinguish between companies with substantially different levels of maturity. For example, under the proposed rating system, a company could fail to meet the requirements of 'Amber' by a single criterion (e.g. not yet having completed external verification and accreditation at the point of reporting) and therefore be categorised as red. This may present an unfair comparison to others who might also be in that red category, yet who are further behind in establishing their approach to embedded emissions reporting. A second challenge is that the proposed rating system covers multiple aspects of embedded emissions management and reporting which could become conflated.

One possibility to resolve this is to introduce red/amber/green ratings for individual issues referenced in the consultation. This would thus be presented as a traffic light system for each of the following:

- Data Quality and Completeness (Provision of embedded emissions data as it relates to capital projects (cradle to gate and cradle to build))
- Engagement with and use of recognised standards, frameworks, or approaches for managing and reporting on embedded emissions
- External verification and accreditation
- Stakeholder engagement and education on its GHG emissions management and reporting approach

In our view, this would allow company performance to be tracked across a range of embedded emissions issues and provide clarity and focus on areas of underperformance.

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 believe it is important that an embedded emissions rating system set by Ofwat aligns to the following recognised frameworks and approaches:

- The GHG Protocol's Corporate Reporting and Accounting Standard, Corporate Value Chain (Scope 3) Standard, and Scope 3 Calculation Guidance documents, as they relate to the calculation and reporting of embedded emissions.
- PAS2080:2016, as it relates to carbon management processes, including each of the key components: Leadership, Governance, Carbon Management Processes, GHG quantification, Reporting, and Continual Improvement.

-
- SBTi Net Zero Standard, in relation to defining scope and emissions coverage.

Following periodic updates to these external frameworks and standards, any rating system introduced by Ofwat should be reviewed against these changes to ensure it remains aligned and fit for purpose.

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

We completed SWOT assessments for both operational and embedded emissions as part of our Annual Performance Report 2021/22. We believe future SWOT analyses should continue to be provided separately because operational and embedded emissions require distinct approaches that are not directly comparable, and also because the spread of maturity across water companies for reporting embedded emissions is considerably greater than for operational emissions at present.

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?

You have asked us for comments on proposed changes to disclosures in the Statement on dividend policy and explanation of dividends paid set out in RAG 3 (disclosures).

As a general matter, we welcome Ofwat's focus on transparency and will continue to enhance our disclosures to ensure they remain clear to Ofwat and all other readers.

We fully endorse the Guidance's commitment to transparency regarding dividends, ensuring visibility and accountability as to how these have been determined in line with our dividend policy, as well as reflecting wider performance for customers and environment. We note that Ofwat's assessment as part of monitoring financial resilience in December 2022, was that our dividend policy and narrative was generally in line with its expectations.

We also remain fully committed to transparency regarding intra group arrangements as currently dealt with in paragraph 3.18 of the RAG. Where such dividends are immediately repaid to the appointee company through an intra company loan, so in effect the 'payments' are book entries and the group's cash position is unchanged, our practice has and continues to be that we exclude these from the base dividend calculation. This treatment more accurately reflects economic reality and the capacity of YWS to pay dividends. Should any cash leave the group (i.e. not be repaid), we would continue to include this in our consideration of the level of dividends.

Where intra group arrangements have been paid, this has been clearly outlined in full in our Annual Report and will continue to be made clear in the future.

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?

The changes that are being proposed are requirements we would have intended to make based on the communications that Ofwat have made during the year. We have no further comments against this.