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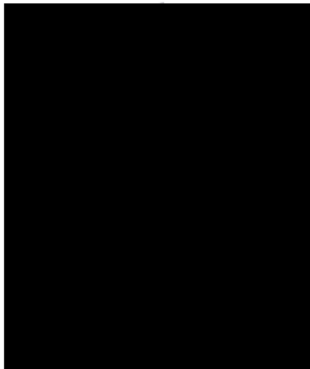
8 March 2023

Dear Chris

Consultation on PR24 operational greenhouse gas emissions performance commitments definitions

Thank you for the opportunity to respond to the above consultation. Please find attached our responses to the questions you have raised and, as always, we are happy to discuss in further detail if needed.

Yours sincerely



Consultation on PR24 operational greenhouse gas emissions performance commitments definitions

Herewith our contribution to operational greenhouse gas emissions performance commitments definitions for PR24.

Question 1: Do you have any comments on our proposal to include additional reporting categories in the definitions of our PR24 operational GHG emission PCs?

- We already use CAW as our reporting tool and can readily provide outputs from the CAW as necessary.
- As a water-only company, we do not believe we would need to report on bioresources. We ask Ofwat for clarification on whether the extended waste reporting requirements would affect the scope of our reporting e.g., waste from water treatment or even more broadly all operational waste as defined in the GHG protocol? Either would require additional data collection and we do not have a historic profile on which to judge a target.
- If the CAW includes the relevant emissions factors, we would be able to report on both transmission and distribution (T&D) losses and emissions associated with extraction and production of imported electricity/ heat.

In terms of the inclusion of these activities in our performance commitment, we are concerned that it may introduce into scope new sources where we have very little control over their carbon intensity. We also do not have a historic timeline of data with which to establish a trend and project future emissions. We can therefore only support their inclusion in the performance commitment target if their inclusion is based on actual data and genuine abatement potential for a small water only company.

Question 2 Do you have any comments on our proposal to allow companies to claim GHG emissions reductions when trading bioresources?

As a water only company this is not something we will be able to take advantage of and suggest that the bioresources performance commitment is not applicable to water only companies. We further suggest that OFWAT consider an equitable mechanism for water only companies to achieve carbon reductions in the absence of bioresource trading.

Question 3 Do you have any comments on our proposal to use one version of the CAW throughout PR24 to assess progress against the PCs?

We can see some merits of this approach, i.e., it ensures that the emissions source list, assumptions, calculations and reporting do not change and affect our ability to meet our performance commitment.

However, as stated above, we do not agree that the emissions factors should be fixed, as they would be if a single version of CAW were used over a 5-year period. Amongst other things, grid emissions are expected to decrease over the commitment period and are one of the ways we anticipate meeting our net zero target.

If Ofwat does decide to use one version of the CAW, the performance commitment calculation must take as an input that the decarbonisation of fuels and other activities reported via an emissions factor has been discounted as an abatement option.

We are also concerned that a fixed tool produces an additional reporting requirement to the annual reporting (which could change with time). This requires additional resource to calculate and validate, an additional cost which we do not agree is justified.

Question 4 Which version of the CAW do you consider it is feasible to use throughout PR24 and why?

If Ofwat does decide to use one version of the CAW, we suggest using the same version as was used to set the performance commitment. If not, then Ofwat must adjust the commitment level to reflect the updated assumptions in the CAW.

Additional comments

In addition to responding to the specific consultation questions please consider the following three points:

1. We agree that improving operational efficiency is a priority in reducing operational emissions yet do not support Ofwat's move to location-only reporting: As a smaller, water only company, our opportunities to mitigate our footprint are not sufficiently wide-ranging or far-reaching to deliver net zero cost effectively.

To achieve net zero, we will rely on multiple actions, such as:

- Reductions in emissions due to the reduced carbon intensity of activities we undertake (including a decreasing grid emissions factor).
- Market-based approaches, like procuring low carbon energy from third parties and offsetting our residual emissions by purchasing good quality certificates.

In doing so we will rely on the wider market to determine the value of saving a tonne of carbon and only reduce our footprint in preference if we can make the business case. For instance, we do not believe we should be installing small arrays of solar panels at sub-optimal locations when we could be importing the power from larger arrays at better sites. Not only would we fail to achieve the same economies of scale, we would also generate less power.

We are concerned that Ofwat's plans to make our performance commitment not just location-only but also with fixed emissions factors, this too greatly restricts our ability to choose cost-effective options to reduce our emissions. We do not agree that focusing in on a very narrow area of carbon management will give Ofwat a clear picture of water companies' real-world net zero performance.

2. We agree that the data used to report to our performance commitment should undergo the same level of internal quality control and external assurance as our APR process. We ask that Ofwat accepts this as an appropriate level of assurance and does not require additional verification costs or effort, particularly not if the performance commitment is focused on such a small subset of our net zero activities.
3. We seek clarification: The consultation document states, 'The companies shall maintain a methodology statement, which shall be used as a decision support tool for this performance commitment.' We ask that Ofwat provide further detail on what the meaning of 'decision support tool' is in this context.