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From: [REDACTED]
Sent: 08 March 2023 15:51
To: Ofwat Annual Reporting
Cc: [REDACTED]
Subject: SSC Carbon definitions consultation response

Follow Up Flag: Follow up
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Good afternoon,

Apologies for the delay in sending this consultation response over, we hope it can still feed into your review.

We understand that a collective response has been discussed at the industry level and that you will have received this, possibly from several companies rather than as a single joint response, and this is with reference to the CAW working group. We understand that this response supported using a fixed 'PR24' version of the CAW but drew attention to some compromises with this approach primarily that it will, over time, create a reporting gap as annual emissions factors and methodology factors diverge from PR24 'fixed' emissions factors and methodology.

It is for this reason that we are not in full agreement with the proposal to fix the version of the CAW for PR24. The water sector is naturally a high energy user and is collectively unlikely to be able to mitigate a significant proportion of grid electricity use through renewables at reasonable cost. Pumping and treating water uses a considerable amount of energy, and always will. Whilst we recognise that Ofwat wants to incentivise 'real' performance improvement, we are unsure why allowing companies to set targets on, or report on, annual emissions based on latest grid emissions factors would be disadvantageous. Decarbonisation of the grid is something that we all contribute to in our energy bills, both domestically and for us as a business, funded through customer bills. Therefore we do not understand why we should all not include the benefits of this grid decarbonisation in our reported emissions. This would be a positive message for the sector overall as the grid decarbonises over time, and does not prevent the water sector deploying more localised renewables schemes where cost beneficial, or reporting separately on benefits over and above grid decarbonisation.

Furthermore, and related to the above, is the issue of normalisation. Clearly, company scale will have a close correlation with total energy use and therefore total emissions. There are other material factors as well, average pumping head being particularly relevant as has been demonstrated for cost assessment. APH effects power use requirements. When normalising carbon emissions for scale (i.e a volume measure such as per property or volume of water), then APH also needs to be taken into account as a driver. We think Ofwat needs to consider normalisation carefully to ensure the benchmarking, targets and in-period performance are not skewed because of an exogenous factor like APH.

Normalisation may also create an issue regarding absolute emissions reduction with respect to reducing demand. Reducing demand, either via household and business consumption, or leakage, should, all else being equal, mean that power use is lower (fundamentally, less pumping and treatment over time). This is arguably one of the largest initiatives that the water sector can do to reduce absolute power consumption. However if the emissions are normalised by volume of water, then the benefit of reducing emissions by reducing leakage and demand is completely masked. This only leaves energy efficiency improvements, which are far smaller scale than our likely demand and leakage reduction programmes will be. Allowing emissions reduction to include demand and leakage reduction does need to consider whether there is any double counting within incentive rates, however in absolute terms, it is clearly the largest contributor to using less energy (which is the overall objective in all this) for the sector.

Best regards

[REDACTED]

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