

Consultation on PR24 operational greenhouse gas emissions performance commitments definitions – response

We welcome the opportunity to respond to your consultation on the definitions of the PR24 operational greenhouse gas emissions performance commitments. Below we have set out key points about the design of the PC before responding to the specific questions in the consultation.

Key observations

We welcome Ofwat's objective to support the sector delivering a reduction in direct and indirect greenhouse gas (GHG) emissions. We are fully supportive of common Performance Commitments (PCs) on operational greenhouse gas emissions in PR24 and the drive to expand transparency of emissions via the Annual Performance Reporting (APR) framework.

The distinction between what is included in the APR and what is included in PC/ODIs is important given the principles that govern ODI design. Specifically, a PC/ODI requires a baseline that can be robustly measured and incentives that apply to genuine performance rather than changes in data and methodology (as Ofwat's principles for a good performance commitment confirm¹). For these reasons we support a twin-track approach to carbon and operational waste, as is occurring in relation to embedded emissions.

- Consistent with our APR23 consultation response, we support the expansion of reporting greenhouse gas emissions in the APR to include, operational waste, and upstream energy Scope 3 emissions.
- We do not think that reporting of chemical emissions is at a suitable level of maturity to support the application of incentives. The existing quality of industry data would make it difficult to set a robust baseline for chemicals and therefore set appropriate targets and incentives that reward genuine performance rather than changing chemical suppliers (see our detailed response below).

Arguably a bigger issue with the inclusion of chemicals is that it penalises companies from taking earlier action to improve the health of our rivers. For example, we have accelerated AMP8 programmes to reduce phosphate – which means our baseline will be higher relative to other companies (as many solutions require chemical treatment). With further opportunities available through transition expenditure, the inclusion of chemicals could disincentivise companies from driving further improvements to improve the ecology of our rivers.

This doesn't mean these emissions aren't important, but rather we need to develop a firm view of the baseline, and impact of AMP8 schemes, before incorporating chemicals into a PC at PR29. Therefore, at this stage we think chemicals is more appropriately incorporated into APR reporting rather than a PC/ODI.

¹ <https://www.ofwat.gov.uk/wp-content/uploads/2022/07/Appendix-6-Performance-commitments-1.pdf>, page 17, sets out Ofwat's design principles for C-MeX, which include: measure performance consistently, reliably and fairly; and reflect customer changes and market changes.

On a similar level, we don't support operational waste's inclusion in a PC at this stage due to data quality and concerns around our level of management control of these emissions due to external policy drivers (e.g., Farming Rules for Water). We would therefore strongly support a similar approach to that which you have proposed for embedded emissions; to work with the industry to improve data over the coming years and to support development of a robust baseline for chemicals and operational waste GHG emissions for inclusion in the common PCs at PR29.

Finally, we wanted to express our appreciation for the constructive engagement over the last twelve months both directly and via the Water UK Net Zero Carbon Technical Group to discuss our approach to Net Zero and the measurement and reporting of GHG emissions. We would welcome further engagement in the coming months to develop PCs that drive science aligned emission reductions in a fair and technically feasible manner.

[Q1 - Do you have any comments on our proposal to include additional reporting categories in the definitions of our PR24 operational GHG emission PCs?](#)

1.1 Chemicals

We do not support the expansion in scope of the PCs to include chemicals due to concerns relating to industry data quality and the technical and economic feasibility of alternatives. However, we do support the expanding the scope of reporting in the APR and already externally report emissions associated with chemicals within our Scope 3 Purchased Goods and Services emissions.

If the PC does include chemicals, any baseline that is set, needs to take into account existing decisions that will increase chemical use over the next AMP in order to deliver agreed outcomes notably, our Green Recovery programme and WINEP.

Complexities with industry data quality for consideration

We are working with our chemical supply chain and industry partners to improve our understanding of the impact of chemical emissions and are already starting to see significant variances in emissions between manufacturer supplied emissions data and the emissions factors in the Carbon Accounting Workbook (CAW) that would potentially be used for the baseline. With the proposal to create a static version of the CAW for the reporting period, this could lead to significant variance over the AMP in the reported impact of chemical related interventions compared to actual emissions; although this could be mitigated if the reporting tool can capture these discrepancies pre-publication. We will continue to share our findings with industry and report in line with best practice.

1.2 Waste generated in operations

We do not support the inclusion of waste generated in operations within the operational emissions boundary of the PC at PR24 due to concerns relating to industry quality data and uncertainties of strategies and policies relating to biosolids that will directly impact on future treatment and disposal methods. However, we are supportive of expanding the scope of reporting in the APR as we already report emissions associated with biosolids to land externally. We may support the expansion of the scope of the PC, but only if all parties including OFWAT were confident on the data basis being used which we think needs significant work.

Complexities with industry data quality for consideration

The current calculations used for estimating emissions from land due to biosolids disposal are under review and subject to a low confidence grade with a high likelihood of methodology changes in the short to medium term which will lead to material changes in estimated emissions. As an example, the CAW only considers tonnes of dry solids when disposing of sludge to land and would not consider the difference between the application of a traditional product and a pelletised product and the potential difference in emissions this could create.

Our process emissions monitoring programme has shown that emissions can be significantly different from those calculated in the CAW. We would hypothesise that a similar discrepancy in reported versus measured emissions is also likely for biosolids disposal. In addition, no impacts of carbon sequestration are currently captured in the existing calculations, UKWIR currently have a research programme reviewing this, but the outputs are not available at the time of writing.

Scope for reduction in AMP8 for consideration

In AMP 8 we have considerable uncertainties around strategy and policies relating to biosolids to land, with the EA Biosolids Strategy, Farming Rules for Water and public perceptions around pollutants all potentially impacting treatment requirements, disposal methods, and routes significantly away from those currently used and captured within any emissions baseline.

The combination of all the uncertainties outlined above mean that we don't feel it is appropriate to include these emissions within the scope of the PC at this time. We would support working with you to develop industry understanding to facilitate setting a robust baseline and reduction target in AMP9.

For other operational waste streams, we would seek further clarity of the scope of sources that you would want to see captured. In addition, we would seek to clarify that the reference to land emissions in the proposed Table 1 in section A1.2 only refers to emissions from sludge to disposal to own land and no other land related emissions?

1.3 Fuel and energy-related activities

We are supportive of the expansion of scope of reporting in this area and agree with broadening the scope to comprehensively capture all emissions within this category bringing closer alignment with the GHG Protocol although there is limited opportunity to reduce emissions in this area under location-based reporting apart from using less energy.

Q2 - Do you have any comments on our proposal to allow companies to claim GHG emissions reductions when trading bioresources?

We are supportive of the proposal and believe it fair that the PC does not reward the outsourcing of emissions. We believe that if biosolids to land emissions is added as an additional emissions source within the PC boundary, then any emissions adjustments related to trading should also take sludge to land emissions into account alongside the emissions associated with treatment.

These adjustments will require data sharing between companies to ensure that the appropriate treatment types, disposal routes and relevant emissions factors are captured. We do not foresee why the ability to capture these adjustments cannot be built into the relevant version of the CAW or PC reporting tool. If this is seen as creating an excessive reporting burden, then a normalised tCO₂e/tds treated and tCO₂e/ tds disposed of could be used for estimation of fair allocation of

emissions between organisations. We would ask for clarity whether this adjustment mechanism will be adopted for APR reporting as well as PC reporting.

We believe the exception for renewable energy generation arising from sludge trading is fair provided REGO/RGGO's are transferred and retired by the relevant organisation. We would also support this mechanism being expanded to incorporate other waste streams arising from operations and treated by a third party for energy generation. This would support development of circular economy opportunities within our supply chain and emerging energy from waste technologies in AMP8.

Q3 - Do you have any comments on our proposal to use one version of the CAW throughout PR24 to assess progress against the PCs?

We believe that we should use a version of the CAW that allows the integration of science as it evolves over the AMP period for APR reporting, at the same time as providing a consistent baseline reporting to compare performance for purposes of the PCs.

We recognise the requirement of the PCs to not reward or penalise companies for changes in emissions due methodological changes or reductions out of their control such as grid decarbonisation. Therefore, we can understand the proposal to use the CAW or a CAW derived reporting tool that is fixed for the reporting period based on the version of the CAW available at the time of final determination. However, we believe that it is important and possible, to use one tool, that includes updates to emission factors but can disaggregate method changes to show a consistent baseline. We would welcome working with you on how to achieve this.

We recognise the benefits and reduction in reporting burden that a static baseline would bring to tracking performance of PCs, although it will lead to variances in reported numbers under different regimes. This is not a new problem, and we already have divergence in reported emissions in our external reporting under Streamlines Energy and Carbon Reporting (SECR), Carbon Disclosure Project (CDP) and Science Based Targets initiative (SBTi) for example.

The existing CAW uses outdated process emissions assumptions, which we deviated away from in our 21/22 APR submission to use data based on the results of our monitoring programme. To justify this change, we took this data through third party assurance and were audited against relevant standards. The CAW does not currently have the granularity to always reflect emissions reductions due to process and asset optimisation. We would therefore propose a mechanism for the inclusion of adjustments to reported numbers where third-party assurance has been completed in line with ISO14064 or similar.

Q4 - Which version of the CAW do you consider it is feasible to use throughout PR24 and why?

We believe CAW v18 or later will be suitable for use as the PCs reporting tool, as this should allow sufficient time to update and revise the existing tool to align with the proposed changes to scope and methodology.

Other - Decisions made in final methodology

Whilst we have responded to the specific questions above, we also bring to Ofwat's attention potential concerns and questions around the proposed PCs. We would welcome engagement on these issues.

1.1 Balance between water and wastewater services

A greater proportion of greenhouse gas emissions, and therefore future opportunity, exists in the wastewater service. Much of the water service is driven by energy use and therefore linked to the decarbonisation of the national electricity grid. We suggest Ofwat considers weighting the incentive strength towards wastewater to ensure the incentives align with the greatest opportunity and risk.

1.2 Renewable energy

As part of the location-based reporting we would welcome clarity on how we should report the benefit of renewable energy physically supplied to a site via means of a private wire, where this is operated by another company (including a company outside the regulated business but within the group company).

If this were counted as simply grid energy, using the fixed grid average rate as proposed, it would remove any incentive to develop physical renewable energy through a third party, thus avoiding any customer cost or risk to this development. We note also the existing regulatory position expressed in the response to our Green Recovery cases, that companies should not develop solar or wind generation within the regulated business. This would mean no incentive to develop renewable energy.

Ofwat should be aware that REGOs and RGGOs do have a financial value if they are sold, and the benefit is not reported. This should be taken into account when designing the performance commitment and Ofwat should be aware companies may sell or retain certificates at different times.

1.3 Insets and nature-based solutions

There are some cross price control activities e.g., peatland restoration and woodland creation which we would appreciate clarification on how they should be allocated between PCs.