



Name: [REDACTED]

E-Mail: [REDACTED]

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

6th March 2023

Consultation on PR24 operational greenhouse gas emissions performance commitments definition

Dear [REDACTED],

Thames Water welcomes the opportunity to respond to the “consultation on PR24 operational greenhouse gas emissions performance commitments definition.” Our core function is to deliver safe, clean drinking water and provide wastewater services 24/7 for 365 days a year to meet current and future customers demands. We plan to go further than this by aiming to reach net zero operational carbon emissions by 2030 and go beyond to support the country in achieving net zero by 2050. Robust carbon reporting therefore is a vital component of measuring our progress to our goals.

The methodology does not prevent companies from using market-based reporting to demonstrate their progress to 2030 but if we do, there is the potential for a conflict of approaches. Ofwat’s proposals, do not fully align with established and well recognised reporting standards. For example, the greenhouse gas protocol allows for the use of market or location based so long as this is transparent. This poses a risk that a customer or stakeholder might not trust in the accuracy of our reporting if there are differences in reporting between companies reported emissions and the performance commitment.

The potential misalignment is considerable. Not recognising the benefits of green energy purchase (through REGO backed market-based emissions reporting) whilst requiring companies to retain REGO’s and RGGO’s for exported energy does not align with established external protocols and will not generate best value for customers from renewable investment and/or erode the benefits case for green energy produced. Furthermore, this could impact a company’s eligibility for certain government incentive schemes.

We strongly support in period revisions to the CAW. It must be flexible enough to adopt improved insights, that allows for the accurate reporting of emissions and their reduction.

The requirements for insets are very restrictive and will limit investment in emerging carbon reduction solutions linked to our operations that will have a positive impact on atmospheric carbon, such as carbon capture and storage. These activities could be key to the industry reducing total carbon as some sources of emissions may be very difficult and very expensive to reduce.

Finally, we would ask how the price control will consider energy and carbon emissions reductions that have already been achieved, and efficient solutions already implemented. Normalisation of targets will

also have to take account of there being differing physical and human geography. This is critical to set a level playing field for efficiency comparisons.

We welcome further discussion on this consultation. We have included an annex with answers to the specific questions set in the consultation. If you have any queries on the response, please do not hesitate to contact me or [REDACTED] [REDACTED]

Yours Sincerely

[REDACTED]

Peter Trafford

Head of Regulatory & Market Economics

Annex

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 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. The data is not readily available or up to date to fully support this. The industry would also benefit from improved understanding of some emissions factors (for example, certain chemicals), and greater requirements on producers, to ensure accurate reporting. Finally, the introduction of additional reporting categories, such as chemicals, introduces more emissions that the industry has limited opportunity to directly reduce. The feasibility, deliverability, and affordability of removing emissions associated with these must therefore be acknowledged.

We would like to make some further comments on specific reporting items:

- **Use of chemicals**
 - The CAW 17 wasn't updated with the mandatory reporting of chemicals as an objective so wasn't changed to reflect this requirement.
 - The CAW has 37 chemical factors and that doesn't account for all the chemicals we use.
 - The CAW has a mixture of supplier and industry wide emission factors which could drive variations that aren't reflective of actual emissions. This will be an issue until all suppliers report their emissions factors in a consistent way. This will then allow the use of low carbon suppliers to be demonstrated.
 - Some of the Emissions Factors in the CAW are 12 years old and may have changed significantly in that time.
 - Some of the emissions factors in the CAW have very little evidence that the companies can use to support their reporting.
 - 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.

- **Waste generated in operations**
 - 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. 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.
 - With regard to reporting on emissions from the disposal of sludge to land. We feel that the benefit of using sludge over a manmade fertilizer should be considered and therefore these emissions should not be reported, or an offset be included to represent the carbon reduction over using manmade fertilizers.

- **Fuel and energy-related activities**
 - This isn't currently included in the CAW emissions factors so will need to be changed.
 - Is the UK Gov emissions factor to be used?

- **Clarification of detail for some reporting items**
 - Further details on the following emissions are requested as we are unclear on the specifics of how these will be assessed.
 - Emissions from land
 - Removal of electricity to charge electric vehicles
 - Use of insets (linked to a nature-based solutions)

Question 2

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

We would like further clarification of how this proposal would work in practice. We believe the proposal is intended to encourage the trading of bioresources. Requiring water companies that receive additional sludge to report on emissions associated with its treatment, without being able to demonstrate the benefits of the green energy produced unless REGO and RGGO's are retained may discourage this.

The requirement for water companies to retain RGGO's or REGO's for green energy produced from waste, even when using a net location-based approach, will specifically disincentivise water companies from treating bioresources when compared to other industries that would not be required to retain REGO/RGGO's to demonstrate the benefits of emissions reduction in a net location-based approach.

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 appreciate that using a fixed version of the CAW would simplify management of the performance commitment, but we believe the many disadvantages of the proposal outweigh its advantages. Crucially for us the monitoring, understanding and management of greenhouse gas emissions is rapidly evolving, the CAW used to manage the performance commitment should incentivise this and be agile and flexible enough to adopt improved insights, that allows for the accurate reporting of emissions and their reduction.

The CAW will need to adapt in the following areas where we think there may be innovation and allow us to demonstrate progress in:

- Adopting to the latest insight on emission factors
- emissions reduction from process emissions or sludge treatment (these are currently by population equivalent and sludge treatment process type only)
- the benefits associated with using different suppliers or products for emissions from chemicals
- the relative benefits of investment decisions such as CHP vs Gas to Grid, based on the latest grid emissions factor

Conversely using a fixed version of the CAW is likely to stifle innovation in emissions understanding and management, prevent transparent reporting and create spiky reporting profiles. A significant divergence in measurement will arise between the performance commitment, public interest commitment and government targets which would be reputationally damaging with customers, stakeholders, and investors. Eventually this would lead to the questioning of the validity reporting if major changes in reporting adopted elsewhere are not incorporated in the CAW.

Any inconsistency in methodologies could also facilitate inconsistent business cases and may drive incentivisation in the wrong areas. The upcoming adoption of the IPCC process emissions factor in the CAW is a good example of the need to adopt leading insight to provide timely transparent reporting to customers, stakeholders and investors and to ensure the PC incentivises and prioritises investment in the right areas.

Question 4

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

We believe that an annually updated version of the CAW should be used throughout PR24 for the reasons described above.