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6 March 2023

Ofwat
Centre City Tower
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Re: Consultation on PR24 operational greenhouse gas emissions performance commitments definitions

Thank you for the opportunity to comment on the proposed changes to the PR24 greenhouse gas emissions performance commitment.

We have set out our response to the consultation questions in Annex 1.

We would be happy to discuss any of our comments further if required.

Yours sincerely

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Annex 1 - Response

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

We are supportive of this proposal which will result in a more comprehensive data set to measure progress toward net zero. It could be enhanced further by requiring each company to complete their own self-assessment of all Scope 3 emission sources and the associated materiality. This would ensure that companies focus their efforts on the largest opportunities to make meaningful reductions in carbon emissions, rather than relying on the fixed categories currently suggested by Ofwat.

Moving to a self-assessment approach for Scope 3 emissions is particularly important given that the approach to reporting carbon emissions outside the water sector is generally framed by Scopes 1, 2 and 3 rather than 'Operational' and 'Embedded' carbon. Following this approach, we would then favour setting Scope 3 targets once we have sufficient data on all Scope 3 emissions, not just those currently specified by Ofwat and allow companies to then apply a 'top-down' approach to setting carbon emission reduction targets. This would ensure the industry focuses on the most cost-effective and far-reaching carbon reductions and would also improve the credibility of the sector's carbon emission reductions as performance would be comparable across industries.

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

We strongly consider that the best approach for reporting GHG emissions is market-based as this avoids the issues that trading bioresources creates with a location-based reporting approach. Using a market-based approach would facilitate transparent measurement and reporting of carbon emissions from Scopes 1 and 2 (and 3, where transport of wastes is involved) without needing to include caveats or exceptions for specific items.

Under the Science Based Targets Initiative that ourselves and other water companies are party to, it is considered environmental best practice to disclose carbon emissions using both market-based and location-based reporting. This encourages companies to report using both methodologies and allow for explanation where location-based emissions are higher due to transfers of materials or products, allowing other companies' renewable generation to increase.

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 consider this a sensible approach for the purposes of baselining for the Final Determination. Through-out AMP8, we consider that the industry should report using the latest carbon intensities that are published by Government annually. We'd expect to be able to report our carbon emissions using the latest published intensity figures and then use this figure to assess performance against the AMP8 baseline using the original published intensity figure.

For monitoring progress against Performance Commitments, it is helpful to keep a consistent baseline using the single version of the Carbon Accounting Workbook throughout AMP8, as a predictive calculated carbon footprint. However, to accurately measure the progress it is necessary that the actual performance is then able to be compared to this prediction, using measured data or future versions of the Carbon Accounting Workbook including updates to the emission intensity, against the baselined data used for the Final Determination.

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

We consider that it is essential to use the latest version of CAW when AMP8 starts. We understand from UKWIR that Version 18 will be the latest version at the start of PR24. However, this means that for our PR24 business plan that is due to be submitted in the summer we will have to propose targets based on the current edition (Version 17). It will be feasible to use Version 18 so long as there is an opportunity to update our proposed target GHG emissions for the draft determination when it is released.