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6 March 2023

Response to consultation on PR24 operational greenhouse gas emissions performance commitments definitions

Dear Ofwat,

Thank you for providing us with the opportunity to comment on this consultation. Our response considers the approach we've taken in delivery of our performance commitment 'PR19YKY_6a Operational Carbon', subsequent agreed changes, and lessons learned from updating versions of the Carbon Accounting Workbook (CAW) e.g., to CAWv16 last year.

In setting out this response we have drawn on our experience in delivering our AMP7 performance commitment and previous responses to the APR consultation, particularly our response last year highlighting the implications of updating the CAW annually, which would likely trigger an annual update to our baseline and, because our target is relative to the baseline, an annual update in our reduction targets. We also highlighted the challenges of re baselining emissions and the potential for inconsistent availability of data that may make it more difficult to compare progress over time.

We have used this experience to respond to the core questions that have been raised in your consultation, and particularly to questions 3 and 4 related to the use of a fixed version of the CAW and which version we believe should be used.

We have set out below our main points for consideration and have provided

detailed responses to the discussion paper questions in the attached Appendix 1.

Additional reporting categories in the definitions of our PR24 operational GHG emission PCs

We are broadly supportive of the proposal to include additional reporting categories and see this as an important step in aligning our sector to UK Government carbon reduction targets out to 2050. We note however that the proposed additions are a sub set of scope 3 emissions, rather than a wholesale shift to full carbon accounting.

We also recognise this is a departure from previous reporting which aligned with the Public Interest Commitment, and this may lead to challenges in communicating our reductions in a clear manner.

We are generally supportive of the proposed additions; however, we have concerns around our, and the industry as a whole's, ability to accurately report on these emissions given the current data available. This is particularly true for Chemical and Land emissions.

Claiming GHG emissions reductions when trading bioresources

While the proposal seems reasonable in principle, it is artificial in the normal context of location based reporting. This may present challenges in our third party verification of our emissions according to ISO14064 1. We also feel that the proposed method could risk us not gaining accountable benefits for exporting our sludge for renewable energy production. We would therefore propose additional mechanisms are put in place.

Use of one version of the CAW throughout PR24 to assess progress against the PCs

We support the use of one version of the Carbon Accounting Workbook (CAW) throughout the price review period to assess progress against the common operational GHG emissions performance commitments (PC's). This follows the approach we have found to be effective during AMP7, providing a consistent reporting tool for comparing performance both year on year and over the AMP, while we use the annually updated CAW for wider reporting purposes outside of the performance commitment.

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

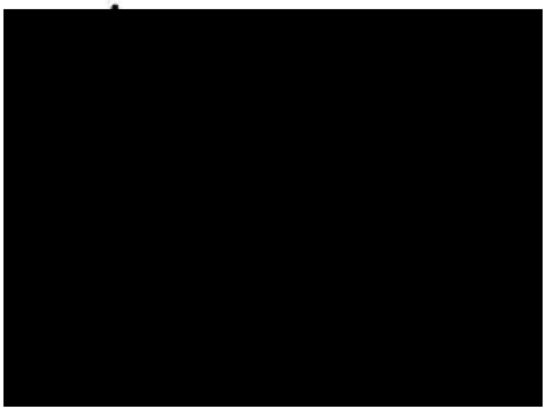
Taking in account the proposed additional reporting elements and the capability of the latest version of the CAW v17, we believe that further refinement of the CAW is required to allow for reporting in a robust manner, and that CAWv18 will provide the most aligned version for reporting throughout the price review period.

We have also set out, in Appendix 2, our additional comments on the proposed methodology (including some decisions set out in the final methodology in December 2022) including:

- the proposed use of location based emissions rather than market based emissions for the common performance commitment
- setting out the performance commitment as two commitments (one for water and one for wastewater)
- the extent of permitted removals related to carbon insets over AMP 8
- the proposed baseline year against which emissions reduction will be compared
- the wider impacts of compliance programmes on emissions that create uncertainty in our forward emissions
- the potential impact of updated emission factors for process emissions
- wider transition pathways to net zero and the use of science based targets

We welcome Ofwat's ongoing engagement with the industry and stakeholders on the approach to operational greenhouse gas emissions reporting in PR24. Should you have any queries regarding any elements of our response, please come back to me.

Yours faithfully,



Appendix 1. Detailed response to the core questions

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 broadly supportive of the proposal to include additional reporting categories and see this as an important step in aligning our sector to UK Government carbon reduction targets out to 2050. We note however that the proposed additions are a sub set of scope 3 emissions, rather than a wholesale shift to full carbon accounting (all scopes of emissions). There are wider sub categories, including purchased goods and services, that also lead to sizeable emissions.

The approach is however a departure from the previous reporting which aligned with the Public Interest Commitment made by companies in 2020, which may lead to challenges in communicating our reductions in a clear manner. It would be helpful for Ofwat to make clear this departure where data is made publicly available.

On the specific additions:

Chemicals

We support the inclusion of chemicals and on balance the calculation and reporting of associated emissions based on purchase rather than consumption.

In giving this response we considered that reporting by purchased chemical volume may not provide an accurate reflection of chemical use, e.g., we could have stockpiled chemicals for financial reasons or to ensure supply resilience and may consume less or more chemicals than purchased in a single reporting period. However, since not all our chemical usage is telemetered, we accept this is likely the most consistent methodology for reporting, and the usage will balance/average out over time. This will also incentivise tighter control on chemical use and improvements in reporting.

The reporting of chemicals remains a challenge due to accurate data availability, and UKWIR have been supporting improvements in the emissions factors for specific chemicals for the latest version CAWv17. However, we feel that further work is required to address the reporting of chemicals and we are hopeful that a more robust accounting method can be integrated in CAWv18. This view ties into our response to question 4 below.

In association with the reporting of chemicals, there is a wider question aligned to UK Government reporting of whether/how we as an industry should account for non territorial emissions. Imported chemicals form a large proportion of our supply. Further guidance is required on this to enable us to report in a manner consistent with the UK Government Commitment to net zero by 2050.

Finally, WINEP compliance has, and continues to cause an increase in our use of chemicals year on year. Forward capital programmes, while balancing chemical dosing with alternatives including nature based solutions, still show further increases in use across AMP8. This is sometimes compounded by the short time frames for compliance. This likely increase in chemicals should be considered in setting overall percentage reduction targets for the common performance commitment to be used throughout the price review period 2025 30.

Waste generated in operations

We are generally supportive of including emissions from trading and disposal of sludge as set out in the consultation (section 3.1.2) as follows:

- *when trading sludge, companies should account for scope 3 emissions generated by the treatment of sludge when exporting it to a third party (including transportation and treatment); and*
- *emissions from disposal of sludge to land owned by the company (scope 1) and owned by third parties (scope 3).*

Clarity is sought with respect to whether this will extend to all waste disposals; Table 1, in the appendices, refers more generically to 'Disposal and treatment of waste', no further information is provided in the supporting notes to set the limits of reporting.

Accounting for these scope 3 emissions, while the company treating the sludge will also account for the associated Scope 1 and 2 emissions may lead to double accounting from a sectoral perspective and this may have an impact for national emissions inventory reporting. .

Additional implications of the proposal are addressed in response to question 2 below.

Fuels and energy related emissions

We support the inclusion of fuel and energy related emissions (Scope 3 well to tank). This extends the reporting of transmission and distribution losses that we have reported in AMP7 to include well to tank emissions, and we have the tools

required to report this. We agree that this will deliver more comprehensive reporting in this area.

Emissions from land

We currently use the UKWIR carbon sequestration tool, to report our land emissions, industry wide. This accounts for our emissions and our sequestrations to give a net emission value.

The approach used in the land carbon model is not aligned with the proposed requirements set out in the consultation for reductions from insets. Greater clarity is sought on the reporting of land emissions and the acceptable way of reporting land emissions for these PCs.

As it stands the CAW has limited capability to account for land emissions and will require further CAW builds to provide a robust solution.

The calculation of emissions from reservoirs is also an emerging science and there is potential for changes to the calculation methods over time, in a similar manner to that experienced for process emissions. We believe that this should be looked at carefully before the inclusion of land emissions, as part of the performance commitments. Therefore, we believe that while it would be helpful to report and build a picture of land emissions, this should be separate from the performance commitments for AMP8.

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

While the proposal seems reasonable in principle, it is artificial in the normal context of location based reporting. This may present challenges in our third party verification of our emissions according to ISO14064 1, as this reduction would, by international standard practice, be recognised as a market based reduction.

In the trading of our sludge to a third party, who is using the biogas to produce green energy, there is no obvious incentive for that third party to sell the RGGOs back to us. Since the third party will likely be another WaSC they will presumably want to account for the resulting emissions reduction themselves.

Where the third party has already adopted gas to grid, it is also presumed that this would not be possible. Unless however there was an additional mechanism for the purchase of the green energy back from the company they have exported the gas to, so they can then gain the exemption.

Overall, this proposal does rely on the third party company having the RGGOs and being able/willing to sell that entitlement. We also need to ensure that there is guaranteed accountable benefits to exporting our sludge for renewable energy production and that acquiring REGOs/RGGOs will not lead to additional costs that could disincentivise trading in this way.

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 support the use of one version of the Carbon Accounting Workbook (CAW) throughout the price review period to assess progress against the common operational GHG emissions performance commitments (PCs). This follows the approach we have found to be effective during AMP7, providing a consistent reporting tool for comparing performance both year on year and over the AMP, while we use the annually updated CAW for wider reporting purposes outside of the performance commitment.

We support the use of fixed grid emission factors throughout the price review period. This isolates the reporting tool from changes in emission factors driven by grid decarbonisation, and international changes to reporting standards, while the wider reporting will move to align with these changes.

Where key changes are made that are deemed necessary to address, for example uplift in process emissions, our experience demonstrates that we can re baseline emissions and move to an agreed upgraded version of the CAW e.g., during AMP7 we moved from CAW v13 to CAW v16 successfully.

Moving to a later version of the CAW would only present a challenge if there were significant changes in wider GHG accounting practices, which would change the basis of reporting. In which case the CAW changes should then be based on a mutually agreed review.

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

Taking in account the proposed additional reporting elements and the capability of the latest version of the CAWv17, we believe that further refinement of the CAW is required to allow for reporting in a robust manner, and that CAWv18 will provide the most aligned version for reporting throughout the price review period.

Using CAWv18 would provide time for the sector to review and make further improvements in functionality and reporting, particularly for chemicals and land related emissions, and ensure that all emission categories including waste are

clearly allocated to water and wastewater to achieve the required reporting split for the two common performance commitments.

While this would defer the establishment of baseline emissions, we feel this is preferable to using an earlier version of CAW that does not provide the level of data confidence we require for the proposed additional reporting categories.

Appendix 2. Our wider comments on the proposed methodology

Location vs market based reporting

While location based does not present a reporting challenge, we believe that continuing to be measured against market based emissions gives a more realistic view of our outturn emissions each year and allows comparability with our long term emission reduction trends. It also avoids artificial reductions and removals and prevents us moving away from internationally recognised reporting methods.

Shifting to location based reporting will only be valuable if this provides a mechanism for enhancement funding for deeper energy efficiency and investment in renewables. We would look to Ofwat for support in these areas moving forward.

Two common performance commitments (one for water and one for wastewater)

We support the move to two performance commitments as this provides greater incentive for emission reduction across our business.

We see this as important in combination with additional reporting elements and shift to location based reporting. Under previous reporting approaches the overall emissions from the water side of our business on a market basis have been significantly lower than the wastewater. The proposed approach matches the shift in emissions reporting and provides wider opportunity for emissions reductions to be supported under the price review.

We are also in favour of the performance commitments to be set as percentage reduction rather than as a normalised measure.

Insets permitted in AMP 8

The final methodology sets out a tight framework for reductions from insets. We do not feel this is clear and presents constraints on what is already a challenging aspect related to our net zero carbon journey, for the following reasons:

- The limit of 1% of gross emissions in AMP sets a constraint which is not aligned to the concept set out in the Paris Agreement, to work towards early intervention to stay off the worst effects of climate change. We do not understand the cap in AMP, although we read into this some alignment to the longer term principle that emissions should reduce by 90% by 2050 and insets/offsets do not exceed 10%.

- There is reference given the Science Based Targets initiative (SBTi), which is a holistic approach to net zero rather than a verification process for inset. We would like to understand what other verification methods will be acceptable, as moving to SBTi for this element alone seems excessive.
- It appears to imply that insets should be part of other works categorised under nature based solutions when our focus is currently on standalone woodland and peatland restoration schemes (although we appreciate the two are not mutually exclusive).
- While we agree to the importance of bringing benefit to the community placing this as a criterion for insets presents an additional barrier to what is already a highly challenging process.

Baseline year

We have not yet formed a strong opinion on the baseline year against which emissions reductions should be based. However, the inclusion of additional reporting categories may require consideration, particularly where historic data is not consistently available.

In the appendices to the proposed methodology Ofwat have included the following indication:

> *Greenhouse gas emissions expressed in tonnes CO_2e (carbon dioxide equivalent) and the percentage change since 2021 22*

This implies that 2021 22 might be taken as the baseline year.

We have not yet checked to determine if all data is available for this year, and whether a comparable baseline could be established.

Separately, we note that the UK Government's 6th Carbon Budget uses 2018, as the latest baseline, using this earlier baseline may be helpful in comparing our carbon reduction glide path to the UK Government target. As stated above this may bring a challenge in obtaining historic data.

Elsewhere in our response we have highlighted the increased use of chemicals in achieving WINEP compliance. A significant proportion of our AMP7 WINEP compliance projects will be finalised in the last 2 years of the AMP. Using a 2021 22 baseline would not, therefore, give a clear picture of chemical related emissions at the start of the AMP and may make target setting a challenge.

Impacts of compliance programmes

We have highlighted that compliance programmes continue to place upwards emission pressures on our business. This creates uncertainty in our forward emissions and the extent of our possible reductions.

Potential updated emission factors for process emissions

As a sector we have communicated the challenge of addressing process emissions, and the potential for the associated emission factors to increase has been discussed. Timing of this will be important and should be agreed.

Wider transition pathways to net zero and the use of science based targets

Reference is made in the proposal to move towards science based targets and reporting, in alignment to the UK Government target for net zero by 2050. In this regard, clarity is sought on:

- Longer term reporting of all scopes of emissions, and if/when we should address all categories Scope 3 emissions, as set out in the GHG protocol
- How we address non territorial emissions
- The baseline we should use for comparing alignment to the UK Government net zero target
- The longer term view on offsets and insets,
- And, noting that emissions within our sector fall into the hard to abate category, an indication of the absolute reduction levels expected out to 2050