

## About this document

In February 2023, we published a consultation on the PR24 operational greenhouse gas (GHG) emissions performance commitment (PC) definitions.<sup>1</sup> The consultation set out our proposals for the scope of the performance commitments and use of one static version of the Carbon Accounting Workbook (CAW) throughout the 2024 price review (PR24) period. We received 17 responses.<sup>2</sup>

This document summarises the responses to the consultation and provides our view on the issues raised. It also sets out the scope of the GHG PCs, having considered the responses we received. Our website contains all the common PR24 definitions and their status, including the operational GHG PCs definitions.<sup>3</sup>

This document contains revisions following publication by UK Water Industry Research Ltd (UKWIR) of version 17 of its Carbon Accounting Workbook. The revisions are noted on pages 6, 7, 8, 9 and 14.

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<sup>1</sup> Ofwat, [Consultation on PR24 operational greenhouse gas emissions performance commitments definitions](#), February 2023.

<sup>2</sup> Responses are published on our website: [Consultation on PR24 operational greenhouse gas emissions performance commitments - Responses](#).

<sup>3</sup> The common PR24 definitions are available on our website see, Ofwat, [PR24 Performance commitment definitions](#).

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## 1. Introduction

At PR24 we are introducing two new common performance commitments (PCs) relating to greenhouse gas (GHG) emissions for water and wastewater. We expect companies to reduce their GHG emissions in line with UK government and Welsh Government interim and final net zero emissions targets.<sup>4</sup> To support this, we have adopted a net location-based approach to incentivise companies to reduce their physical GHG emissions. As such we expect companies to focus on areas where GHG emissions can be reduced including, but not limited to, process emissions, energy efficiency, fuel switching, and the use of nature-based solutions. Our approach has been informed by the GHG Protocol, the Science Based Targets initiative, the Greenhouse Management Hierarchy, and our net zero principles.

### 1.1 Our approach to the performance commitments

While the sector has made progress in reducing its operational GHG emissions and we welcome its commitment to achieve net zero operational carbon emissions by 2030, companies need to go beyond what is proposed in Water UK's Net Zero 2030 Routemap. They need to tackle both operational and embedded emissions in parallel and cover operational emissions more comprehensively.

To support companies to focus on reducing their own physical emissions and incentivise them to make rapid progress on net zero, we have adopted the location-based accounting method for the purpose of calculating scope 2 emissions for these PCs. This is aligned with international reporting practice. International approaches such as the GHG Protocol provide guidance for reporting scope 2 emissions on a location-based method.<sup>5</sup> We consider this provides a more accurate picture of companies' GHG emissions by focusing attention on a company's physical actions and not financial transactions linked to the purchase of energy. This will be particularly important in PR24 given that companies' GHG emissions may rise due to other drivers, for example in achieving new water quality targets.

Each company's progress against the PCs will be determined on its net emissions. It will be able to claim reductions in GHG emissions due to renewable energy exports and/or the use of insets, subject to certain criteria.<sup>6</sup> Focusing on a company's net emissions using the location-

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<sup>4</sup> For more information see Ofwat, [Net zero principles position paper](#), January 2022.

<sup>5</sup> The GHG Protocol establishes comprehensive global standardised frameworks to measure and manage GHG emissions and is used by public and private sector organisations globally. For guidance on the location-based method see, Greenhouse Gas Protocol, [GHG Protocol Scope 2 Guidance](#), 2015.

<sup>6</sup> The criteria are included in the definitions for the PCs, which can be found on our website, Ofwat, [PR24 Performance commitment definitions](#).

based method for accounting for scope 2 emissions enables companies to be clearer on the impacts of their physical actions to reduce GHG emissions.

Our approach to the PCs does not preclude companies reporting on a market-based method against other commitments, including the sector's Public Interest Commitment. We expect that companies will also continue to report separately through their annual performance reports (APRs) using both location-based and market-based methods, including both their gross and net emissions.

Through our engagement with the sector and conversations with stakeholders it is apparent that there is clear support for our approach to incentivising action to reduce GHG emissions through PCs.

## 1.2 The consultation

In February 2023, we consulted on our proposals for the definitions of the GHG emissions PCs. In the consultation, we invited feedback on:

- The scope of the PCs, specifically with regard to including three additional reporting categories.
- Our proposal to allow companies to claim GHG emissions reductions when trading bioresources.
- Our proposal to use one version of UKWIR's Carbon Accounting Workbook (CAW) throughout PR24 to assess progress against the PCs.
- Which version of the CAW would be most feasible to use throughout PR24.

Prior to the consultation, we discussed our proposals with companies and environmental NGOs. We received 17 responses to the consultation, with the majority being from water companies.

## 1.3 Our final decisions and reasoning

Overall, there was broad support from stakeholders for our consultation proposals. Having conscientiously considered the points raised by stakeholders, we assess that none raised issues that provided sufficient reason to make significant changes to the scope of the proposed PC definitions. As a result, we confirm that:

- Chemicals, waste generated in operations, and fuel and energy-related activities are included in the definitions of the PR24 operational GHG emissions PCs.

- Where companies trade bioresources, the exporting company can, to the extent it purchases the renewable energy generated from the sludge it traded, claim the related emissions reduction, provided it retains the corresponding renewable energy certificates.
- We will use a fixed version of the CAW throughout the 2025-30 period. In light of PR24 timeframes, we anticipate using version 17, subject to it meeting our reporting needs.

As well as expressing views on the consultation proposals, stakeholders also requested clarification on how the proposals would work in practice. In addition to the proposals we sought views on, a small number of stakeholders also provided feedback on our approach to incentivising the PCs, including requesting clarification on how we are defining renewable energy. We have noted this feedback and offer further clarification in section 5 of this document. The remainder of this document highlights the range of responses we received against each consultation area and our decisions, including clarifications.

## 2. Scope of the performance commitments

Stakeholders were broadly supportive of the inclusion of additional reporting categories in the scope of the PCs. In particular, stakeholders supported expanding the categories included in the PCs to help develop a fuller picture of company emissions, support alignment with the UK government's net zero strategy and increase transparency.

However, some concerns were noted around the robustness of data, particularly in relation to chemicals, and a lack of consistency in companies' approaches. Only three companies expressed views that no additional categories should be included in the PCs. This was due to concerns linked to a lack of reporting maturity, a lack of certainty and stability in reporting, and that these categories are outside the direct control of the organisation.<sup>7</sup>

We acknowledge the issues around maturity of reporting, particularly in relation to chemicals. However, we do not consider these strong enough reasons to exclude the additional categories from the PCs. Management of these categories of emissions is critical to achieving net zero and companies' actions in these areas can have a fundamental impact on emissions. We consider the additional categories to be under the company's direct operational control as company decisions, such as which solutions or processes to adopt in delivery of their statutory functions, have a direct impact on emissions. By using a fixed version of the CAW, all companies will report emissions from the additional categories on the same basis, supporting consistency. We consider that the inclusion of additional reporting categories in the PCs will incentivise companies to make rapid progress in the reporting and management of these emissions.

Overall, most views expressed related to the use of chemicals, with only a small number of stakeholders specifically referencing waste generated in operations and fuel and energy-related activities.

We confirm that companies should report GHG emissions from their retail activities by allocating them equally between their water and wastewater activities.<sup>8</sup>

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<sup>7</sup> South West Water, South East Water and Southern Water expressed views that no additional categories should be included at this point.

<sup>8</sup> This paragraph was added in May 2023, to respond to a query made by Northumbrian Water in its consultation response.

## 2.1 Use of chemicals

Thirteen stakeholders provided commentary on including GHG emissions from the use of chemicals in the PCs.<sup>9</sup> In particular, it was highlighted that the CAW does not include all the chemicals companies use for water and wastewater treatment; that emissions factors in the CAW need updating; and that there may be challenges in developing a robust baseline.

Given the concerns around reporting GHG emissions from chemicals, United Utilities proposed that a decision should be made in 2024 about including chemicals in the PCs after further consideration of consistent approaches to reporting. Severn Trent Water and Affinity Water proposed that chemicals should not be included in the PCs for PR24, but that they should be included in PR29, to allow maturity in reporting to develop.

Companies requested clarification and guidance on whether fixed or supplier emissions factors should be used, and which chemicals they should include in reporting. South West Water queried whether emissions from the use of granular activated carbon (GAC) should also be reported on. Several companies also noted that chemical use may increase during PR24 due to other drivers including the Water Industry National Environment Programme (WINEP). There are also high levels of uncertainty around treatment processes for new and emerging pollutants, with the resulting impacts on emissions potentially spread disproportionately between companies.

We acknowledge the concerns around reporting of chemicals. However, these concerns do not provide sufficient reason to exclude chemicals in the PCs. As noted by companies, chemical use may increase in the 2025–2030 period. It is critical that emissions from the use of chemicals are monitored as this will help companies and stakeholders to better appreciate the outcomes of decisions involving the use of chemicals.

With respect to the reporting of GHG emissions from the use of chemicals, we expect companies to report using the default list of chemicals contained in the CAW. In calculating the emissions associated with a chemical on the CAW default list, the company should use the highest emission factor for which a publicly available data source is noted on that list. Where the default list does not note an emission factor with a publicly available data source, it should use the highest factor noted on the default list.<sup>10</sup> This includes chemicals in gas and liquid form, as specified in the CAW. Specific emissions factors from suppliers should not be used in determining emission values. We further expect companies to report on

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<sup>9</sup> Thirteen stakeholders provided commentary related to chemicals, with ten (Anglian Water, Northumbrian Water, Portsmouth Water, South West Water, Thames Water, United Utilities, Wessex Water, Yorkshire Water, the EA and Jacobs) offering support for the inclusion of chemicals or requests for clarifications. Three companies disagree with the inclusion of chemicals at PR24 (Affinity Water, Southern Water, and Severn Trent Water).

<sup>10</sup> Updated to clarify which emissions factor companies should use (May 2023).

emissions from the use of both virgin and regeneration GAC. Emissions from chemicals should be based on the volumes purchased and emissions linked to their manufacture.

We expect the default list of chemicals contained in the CAW to cover most GHG emissions from chemicals. However, we recognise that chemical use may change over time due to other drivers. As such, the PCs will include all chemicals on the CAW's default list and any other chemical that accounts for 10% or more of the company's GHG emissions linked to its use of chemicals. Chemicals that meet or exceed this threshold, either individually or together where the company uses alternative chemicals for the same purpose, should be reported through the CAW's custom list. In calculating the emissions associated with a chemical that is not on the CAW default list, the company should use the highest emission factor for which there is a publicly available data source and cite that source when reporting. If there is no publicly available emission data for that chemical, the company must set out the emissions factor used and provide reasons for using this factor.<sup>11</sup>

In their reporting, we expect companies to provide commentary on chemicals and where using custom chemicals they should be clear on the emissions factor used.

In March 2023, we are issuing a historic data request for GHG emissions to support the setting of the common GHG performance commitment levels.<sup>12</sup> As part of their data returns, we expect companies to provide emissions linked to the use of chemicals. In the commentary accompanying their data returns, we expect each company to detail any other chemicals which are not included in the CAW's default list and which the company anticipates will meet the 10% threshold outlined above in the 2025–30 period, including the reasons for this. If companies do not identify any chemicals that are likely to meet the 10% threshold in this return, but they subsequently do, we may amend the definition to include the chemical in reporting without amending performance commitment levels (PCLs) or the baseline.

## 2.2 Waste generated in operations

Nine companies provided commentary on waste generated in operations.<sup>13</sup> Six companies either suggested forms of waste that should be included or sought clarification on applicability of waste categories.<sup>14</sup>

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<sup>11</sup> Updated to clarify which emissions factor companies should use (May 2023).

<sup>12</sup> In addition to their Annual Performance Reports for 2022–2023, we are requiring companies to provide historic data in relation to their GHG emissions, to support the setting of the common GHG performance commitments levels. This includes emissions linked to the use of chemicals that are not on the CAW's default list. See Ofwat, '[IN 23/03 Expectations for monopoly company annual performance reporting 2022-23](#)', March 2023.

<sup>13</sup> Northumbrian Water, Severn Trent Water, South West Water, Southern Water, Thames Water, United Utilities, Wessex Water, Yorkshire Water, and Portsmouth Water.

<sup>14</sup> Northumbrian Water, Thames Water and United Utilities suggested which forms of waste should be included in the PCs. South West Water and Portsmouth Water requested clarification on which forms of waste are included.



The inclusion of GHG emissions from disposal of sludge to company and third party landbanks was proposed by United Utilities (sewage sludge) and Northumbrian Water (water and sewage sludges). However, Thames Water proposed only including emissions from transport and treatment of waste by a third party. Thames Water considers that disposal of sludge to land should not be reported on.

Severn Trent Water proposed that waste should be included at PR29 instead of PR24, due to concerns around data quality and levels of management control, as external drivers can impact emissions from waste. Southern Water stated that, given companies are only starting to consider process emissions solutions, reporting on waste will be challenging.

Portsmouth Water requested clarification on whether reporting on waste applies to water only companies. Yorkshire Water asked for clarification on whether the PC includes all waste and South West Water asked whether administrative waste should also be reported.

We acknowledge companies' proposals for which categories of waste should be included in the PC. We consider that including emissions from waste in the PCs will support more accurate understanding of these emissions, increase transparency for stakeholders and incentivise companies to reduce emissions in this area.

We confirm that we expect all companies to report on emissions related to sludge transport, treatment and disposal, including disposal to their own land and third-party land. This refers to wastewater sludge.<sup>15</sup> Other forms of waste such as administrative waste will not be included in the PCs. Consequently, we have amended the GHG PC definitions to clarify that we expect companies to report the following:

- Sludge transport in vehicles owned or leased by the company (scope 1 Vehicle transport) and by third parties (scope 3 Outsourced activities).
- Sludge treatment by the company (scope 1 Process & fugitive emissions) and by third parties (scope 3 Outsourced activities).
- Disposal of sludge to company's land (scope 1 Emissions from land) and third party's land (scope 3 Disposal of sludge to land).
- Energy associated with sludge transport, treatment and disposal when done by the company (scope 1 Burning of fossil fuels, scope 2 Purchased electricity, Scope 3 Purchased electricity, Purchased heat, Purchased fuels).

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<sup>15</sup> Updated to remove "water sludge" (May 2023).

## 2.3 Fuel and energy-related activities

Four companies supported including some forms of fuel and energy-related activities in reporting for the PCs.<sup>16</sup> Companies also requested clarification in several areas.<sup>17</sup> Thames Water requested clarification on which emissions factors should be used, while United Utilities requested clarification on whether we only intend to include well-to-tank emissions from fuels used for generating heat and electricity.<sup>18</sup>

Wessex Water noted that it would be premature to include well-to-tank emissions related to the extraction and production of fuels. South West Water agreed that companies should begin reporting in this area but noted that it is unclear whether there is sufficient stability in the data and its measurement to support including this category in those used to set incentives at PR24. While supporting inclusion in the PCs, Portsmouth Water and Severn Trent Water noted that there is potentially limited scope for companies to reduce emissions from these sources.

We welcome companies' support for our proposal to incentivise reductions in emissions in this category in the PCs. We consider including these emissions will capture a more accurate picture of companies' emissions, with their reporting and monitoring leading to a reduction.

We confirm that we expect companies to report on GHG emissions from extraction, production, and transportation of fuels used in the generation of electricity and heat consumed by each company. We expect companies to follow the GHG Protocol guidance.<sup>19</sup> Following further consideration of reporting in this area, we further confirm that we expect companies to report on GHG emissions from extraction, production, and transportation of purchased fuels consumed by the company. We consider this is important to accurately capture emissions from companies' use of natural gas and the impacts of their decisions in this area on GHG emissions.

We expect companies to use the CAW and the UK government provided emissions factors for 2022 to report emissions from fuel and energy-related activities.<sup>20</sup>

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<sup>16</sup> Portsmouth Water, Severn Trent Water, Yorkshire Water and United Utilities.

<sup>17</sup> Severn Trent Water, Thames Water, United Utilities and Portsmouth Water.

<sup>18</sup> Well-to-tank emissions means all GHG emissions from the production, processing and delivery of a fuel.

<sup>19</sup> See Greenhouse Gas Protocol, '[Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#)', 2011, p.41.

<sup>20</sup> UK government, [Greenhouse gas reporting conversion factors](#), 2022.

### 3. Renewable energy from bioresources

In our consultation we proposed that a company that exports its sludge for treatment and disposal by a third party can, to the extent that the company purchases the renewable energy generated by the exported sludge, claim the emissions reduction benefit associated with the energy produced. The purpose of this exception is to ensure that companies are not disincentivised from engaging in the bioresources market.

However, to evidence the emissions reduction and to ensure that those reductions are not double counted, the exception is conditional upon the exporting company purchasing the renewable energy generated from that sludge and being able to evidence this by retaining the corresponding renewable energy certificates. If these are REGOs, we expect the company to retain full legal and beneficial title at all times to the certificates. If these are RGGOs, we expect the company to retire the certificate and be named as the sole allocated end user.

Stakeholders largely welcomed our proposal to allow an exception for bioresources trading. Most companies felt that they should not be disincentivised from trading sludge as it can lead to positive outcomes such as renewable energy generation, and that requiring companies to retain or retire the appropriate renewable energy certificates will ensure that the emissions reductions are not double counted.<sup>21</sup> Two stakeholders considered that the exception could incentivise companies to trade bioresources as opposed to using bioresources inhouse.<sup>22</sup> Jacobs noted that full carbon accounting in this area was important.

Northumbrian Water and Thames Water were concerned that requiring exporting companies to retain the corresponding renewable energy certificates could disincentivise trading. Yorkshire Water queried whether an additional mechanism would be needed to ensure they could claim the emissions reductions from exporting their sludge as the third party may not be able to provide the renewable energy certificates. United Utilities requested clarification on how the proposed exception will work.

As acknowledged by stakeholders, our exception for bioresources trading is intended to ensure that the PCs do not disincentivise sludge trading. We consider reporting on waste, as outlined in section 2.2 of this document, is important to accurately capture emissions and that, where a company is claiming emissions reductions related to renewable energy generation, it retains at all times the full legal and beneficial title to the relevant associated certificates in order to evidence the emissions reduction and avoid double counting.

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<sup>21</sup> Anglian Water, Severn Trent Water, South West Water, Southern Water, United Utilities, Wessex Water, and Yorkshire Water.

<sup>22</sup> The EA and Jacobs.

In terms of bioresources trading, where a company exports its sludge to a third party for treatment and disposal, we confirm that the exporting company can claim the emissions reduction benefit related to the energy produced if it purchases that energy and retains full legal and beneficial title to the related certificates at all times. It is a matter for the parties involved to agree use of the exception. Subject to relevant legal requirements, companies enter into agreements as they wish. However, the company exporting its sludge can only claim an emissions reduction under the PC if it uses the exception.

We consider that retention of the appropriate certificate and all benefits arising from it is necessary to evidence the emissions reduction and to ensure that those reductions are not double counted. It is our understanding that under the rules related to RGGOs and REGOs certificates they can be transferred between parties, but only retired or retained by one party.<sup>23</sup>

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<sup>23</sup> For more guidance see Green Gas Certification Scheme, [Scheme Rules](#); and, Ofgem, [Renewable Energy Guarantees of Origin Guidance for generators, agents and suppliers](#), 2011.

## 4. Use of one version of the Carbon Accounting Workbook

Stakeholders recognised that using a fixed version of the Carbon Accounting Workbook (CAW) for the PCs throughout the 2025–30 period will support a static and consistent baseline for assessing progress and reduce uncertainties related to changes in carbon accounting methodologies. However, several stakeholders highlighted issues that may arise from also fixing emissions factors that are used within the CAW.<sup>24</sup> Stakeholders noted that monitoring, understanding and management of GHG emissions is evolving, which may lead to changing emissions factors in areas such as process emissions. Several stakeholders requested clarification on whether emissions factors will be fixed.

Several stakeholders argued that the PCs should not use a fixed version of the CAW but should use the latest version in use to assess progress.<sup>25</sup> In addition to concerns about fixed emissions factors, stakeholders commented that using a fixed version of the CAW for PCs could create divergence in reporting with different emissions figures reported under the PCs, companies' APRs and other reporting standards that companies use.

United Utilities and Affinity Water proposed that a bespoke PR24 PCs reporting tool aligned with the version of the CAW in use at final determination could be developed. This tool would include a static version of emissions factors and carbon accounting methodologies.

Stakeholders who supported using a fixed version of the CAW throughout PR24 suggested that version 18 would be the most suitable one to use as it is expected that this will be the latest version available at the start of PR24. Several stakeholders, who did not support using a fixed version of the CAW, suggested that the latest version should be used throughout the period, or that the same version should be used to set the PCs and report on the PCs.

We confirm that we will be using one fixed version of the CAW throughout the 2025–30 period (including in relation to emissions factors). Reporting against a static version has the advantage of creating a stable framework against which to understand and compare company performance and to determine performance payments. Using a fixed version will also incentivise companies to focus on reducing their own physical emissions and in doing so allow stakeholders to better understand the progress made. This is aligned with our approach to the PCs, outlined in section 1.1 of this document, which focuses on company's actions to reduce their emissions.

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<sup>24</sup> Anglian Water, Northumbrian Water, Severn Trent Water, Wessex Water, Portsmouth Water, South Staffs Water, and Jacobs.

<sup>25</sup> Anglian Water, Northumbrian Water, Thames Water, Portsmouth Water, SES Water, South Staffs Water and the Environment Agency.

We note stakeholders concerns that using a fixed version of the CAW could create divergence between emissions totals reported through the PCs and in their APRs for instance. However, a divergence already exists in reporting as companies do report against several different frameworks.

Companies will continue to report annually through their APRs, using the latest version of the CAW. This will allow companies to update their reporting of GHG emissions considering developments in monitoring and reporting. Version 18 is likely to be the latest version in use by the start of the 2025-30 period and we recognise that several stakeholders suggested that either version 18 or the latest version available should be used to set the PCs. The PR24 GHG PCs are drafted with reference to the latest publication of the CAW (version 16). We understand that UKWIR is working on version 17 of the CAW and that companies are expecting to use version 17 to develop their business plans.

We consider that the benefits of a clear line of sight from companies' business plan proposals to how we will assess performance outweigh likely improvements in switching to a later version after we receive business plans. Switching to a later version may also lead to misunderstandings. Therefore, we anticipate using version 17 in the PCs, subject to it supporting our PR24 policy intentions. Consequently, we may amend the drafting of the PC definitions, including to add exceptions or exclusions relating to elements of the CAW.

Emissions factors will also be fixed for the 2025-30 period. We recognise stakeholders' concerns around using the grid emissions factor for 2020-21 in the PCs. Instead, we anticipate that the PCs will require companies to use the 2022 grid emissions factor.<sup>26</sup>

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<sup>26</sup> Updated from 2023-24 grid emissions factor to 2022 grid emission factor (May 2023).

## 5. Other issues

Eight respondents provided commentary on or requested clarification on the net location-based method for accounting for emissions.<sup>27</sup> This included:

- The definition of renewables.
- The capping of insets at 1% of gross emissions.
- Views on the net location-based method and exclusion of green energy purchases.

### 5.1 Renewables

By generating their own renewable energy and using it in their operations, companies can reduce their location-based scope 2 emissions as they will purchase less electricity delivered through the grid, or their scope 1 emissions related to the burning of fossil fuels. We confirm that the following activities are eligible:

- Onsite generation;
- Behind the meter;<sup>28</sup> and
- Private wire.<sup>29</sup>

We are aware that companies often engage in these activities as part of their non-appointed business, with associated companies or with third parties. Companies are reminded that, as for all other transactions between the appointed business and non-appointed business or associated companies, they must follow the relevant licence requirements<sup>30</sup> and Regulatory Accounting Guidelines as revised from time to time.<sup>31</sup>

For bioresources, we have provided guidance on energy prices where other price controls are importing energy from the bioresources price control.<sup>32</sup> Where activities involve companies

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<sup>27</sup> Northumbrian Water, Severn Trent Water, South West Water, Thames Water, Dŵr Cymru, United Utilities, Yorkshire Water and Portsmouth Water,

<sup>28</sup> 'Behind the meter' means renewable energy that does not have to pass through a meter or the grid to be used onsite.

<sup>29</sup> 'Private wire' describes a situation where an energy generator provides energy directly to the end user via a direct private connection rather than via the grid.

<sup>30</sup> Including those in Condition P: Regulatory ring-fence

<sup>31</sup> For more information on the current Regulatory Accounting Guidelines, see [Ofwat, RAG 2.08 – Guideline for classification of costs across the price controls](#); Ofwat, [RAG 5.07– Guideline for transfer pricing in the water and sewerage sectors](#), April 2017; and Ofwat, [RAG 3.13 – Guideline for the format and disclosures for the annual performance report](#), March 2022.

<sup>32</sup> For more information see Ofwat, [Bioresources cost allocation – Energy generation and odour control final decision](#), October 2021

leasing land to an associated business or third-party companies must comply with the relevant licence condition.<sup>33</sup>

Renewable energy delivered through the grid, including where this is due to a direct or corporate power purchase agreement, is excluded from the PCs.

## 5.2 Insets

Stakeholders welcomed the use of insets but queried the limit, which Northumbrian Water and Thames Water considered was too restrictive. Severn Trent Water asked for clarification on how activities such as peatland restoration and woodland creation would be allocated between the PCs, with United Utilities suggesting that these activities should be split consistently. Jacobs and South West Water commented on whether carbon sequestration should be included in the PC.<sup>34</sup>

As outlined in our final methodology for PR24, to ensure companies maintain the strongest possible focus on reducing physical GHG emissions, they will only be permitted to claim a total of 1% of their overall (gross location-based) GHG emissions reductions for the 2025-30 period by reference to the use of insets. This cap is designed to ensure companies remain focused on innovating to reduce their emissions while recognising the complexities and challenges involved in reducing GHG emissions over the long term. It is in line with the Science-Based Targets initiative (SBTi) guidance, which says insets/offsets should not be used to negate more than 5- 10% of a company's emissions between now and 2050, and these should be used only where emissions cannot be removed on significant cost or technical grounds.

We confirm that companies can allocate activities such as peatland restoration and woodland creation between the two PCs in the manner that best reflects their particular circumstances, but they must provide a clear explanation of their rationale for the allocation and ensure that reductions are not double counted. Companies are expected to allocate insets to the area of their operation that they are related to. Sequestration activities, such as peatland restoration, can be included within insets where they lead to an emissions reduction that can be demonstrated in the near and long-term. As outlined in the final methodology, where companies want to claim emissions reductions related to the use of insets, such reporting must be subject to external verification.<sup>35</sup>

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<sup>33</sup> Condition K: Disposals of Land.

<sup>34</sup> Carbon sequestration is the process of capturing, securing and storing carbon dioxide. Several companies are engaged in peatland restoration, which is a form of carbon sequestration for instance.

<sup>35</sup> For further discussion, see Ofwat, '[Creating tomorrow, together: Our final methodology for PR24 Appendix 7 Performance commitments](#)', December 2022, pp. 48-49.



## 5.3 Net location-based method

Several companies expressed views about the suitability of the market-based and location-based methods of accounting for emissions and explained the role of green energy purchases in their net zero plans.

As outlined in the final methodology for PR24 and the consultation on PR24 operational greenhouse gas emissions PCs definitions, the PCs will be incentivised on a net location-based method. The location-based method is an internationally recognised approach for accounting for GHG emissions. Companies already report to us on a location-based method.

To demonstrate progress against the PC, we will consider companies' net location-based emissions. This will allow companies to include emissions reductions arising from the export of renewable energy, and/or a limited use of insets. Companies that export renewable energy can count these exports towards their net emissions totals if they retain the appropriate certificates (e.g. REGOs, RGGOs). Further detail in relation to bioresources is provided in section 3 of this document.

We do not consider that there is misalignment between excluding green energy purchases backed by the appropriate certificates from the PCs and requiring companies, where they export renewable energy, to hold the appropriate certificates. In incentivising the PCs, we are focusing on companies' own actions to reduce their emissions. Requiring a company to hold the appropriate certificates is to allow a company to evidence their emissions reductions from the export of renewable energy and avoid double counting.

As discussed in the final methodology for PR24 we do not consider that incentivising the PCs on a net location-based method precludes companies from reporting on a market-based method to demonstrate progress towards their own or the sector's Public Interest Commitment to net zero, as well as UK government and Welsh Government net zero targets.<sup>36</sup> Companies can continue to dual report on a location- and market-based method, using the latest version of the CAW through their APRs.

## 5.4 Normalisation<sup>37</sup>

Several stakeholders provided commentary on normalisation and requested clarification on whether normalisation will take into account company-specific factors including differing

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<sup>36</sup> For further discussion, see Ofwat, '[Creating tomorrow, together: Our final methodology for PR24 Appendix 7 Performance commitments](#)', December 2022, pp. 45-46.

<sup>37</sup> For more details on normalisation, see Ofwat, '[Creating tomorrow, together: Our final methodology for PR24 Appendix 7 Performance commitments](#)', December 2022, p.50. For guidance on normalisation see Ofwat, '[Consultation on regulatory reporting for 2022-23 - Responses document](#)', March 2023.

physical and geographical factors, and operational contexts.<sup>38</sup> It was also noted that drivers including WINEP will increase energy and chemical demands, and this is not recognised within normalised emissions.

In the final methodology for PR24 we recognise that while volume measures are likely to be the most appropriate way to normalise performance, other factors may also impact performance.<sup>39</sup> This makes normalisation useful for simple comparisons but not robust enough at this stage to set common performance commitment levels. We still expect to use normalised company performance separately for water and wastewater services (e.g., operational GHG emissions per Ml/d of distribution input) as a key analysis tool in our review of proposed company stretch through base expenditure. Where companies consider their ability to deliver performance is impacted by company specific factors, they should provide compelling evidence of the impacts on them and other companies in their business plan submissions. These comparisons will be used to test comparative levels of stretch and to set company specific performance levels to be delivered from base expenditure.

In terms of the final presentation of the performance commitment, as we set out in our final methodology, it is difficult to decide on normalisation until companies report in their 2023 APRs.<sup>40</sup> Therefore, we expect companies to provide information in their business plans so that we can normalise based on volume and for the PCs to be set as a percentage reduction. We will propose which should be used in our draft determinations.

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<sup>38</sup> Anglian Water, Thames Water, Northumbrian Water, South West Water, South Staffs Water and United Utilities.

<sup>39</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24 Appendix 9 Setting expenditure allowances](#)', December 2022, p. 91

<sup>40</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24 Appendix 7 Performance Commitments](#)', December 2022, p. 50