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Regulatory Reporting Consultation Response  
Ofwat  
Centre City Tower  
Birmingham  
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To whom it may concern

**Re: Consultation on regulatory reporting for the 2021-22 reporting year**

Thank you for the opportunity to comment on the proposed changes to the reporting requirements for the 2021-22 Annual Performance Report (APR).

Our response includes comments on the questions raised within the consultation document including some issues with specific tables (see Appendix 1) on which we would welcome clarification within the finalised Regulatory Accounting Guidelines.

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

Yours faithfully



**Eleri Rees**  
**Strategy and Regulation Director**

**Appendix 1 Response to APR consultation questions****Q1. What are your views on the proposed changes to the APR tables in A1?**

We have provided feedback below where we consider it would be beneficial for additional guidance or clarification to be included in the final Regulatory Accounting Guidelines (RAGs) to ensure clarity and therefore improve consistency of information provided by water companies.

Table	Line	Issue
4C	22	Line 4C.23 compares the allowed and actual costs not subject to cost sharing. The allowed costs from the 2020-21 Financial Flow data included third party costs and non-price control grants and contributions. These costs should be included in line 4C.22 to ensure the lines are comparable.
3D	4 and 5	The definitions for these lines do not reflect the updated information provided as part of the Ofwat 2020-21 APR query process (numbers 144, 158 and 186), would result in the double-counting of infrastructure charge revenue. Additionally, as these lines are direct summations of other inputs, these lines could be calculated cells.
3D	6 and 7	The quantitative component figures of D-MeX were reported half yearly in 2020-21, as a result of the change to the WaterUK metrics included in D-MeX, from 1 October 2020. Is it still relevant to report half-yearly for 2021-22 or should the table be updated to report on the figures on an annual basis?
3I	4	The definition for this line does not reflect the updated information provided as part of the Ofwat APR query process number 101. We would welcome the additional information being included within the RAGs to provide clarity on this line.
4A	All lines	As per Ofwat RAG query 103, we require 17 lines in this table.
4I	All lines	The text shown in RAG 4.10 for table 4I appears to be a duplicate of table 4H.
4L and 4M	4L - new columns O, P and Q. 4M - new columns U, V and W	These tables include cumulative actual expenditure for each enhancement by purpose line. Could you please clarify whether this refers to AMP7 expenditure only?
4L and 4M	4L - new columns O, P and Q. 4M - new columns U, V and W	Table 4L and 4M include additional columns to capture the allowed expenditure by purpose to allow for the comparison to actual expenditure. There is a risk that the collection of data at the disaggregated level can result in unsound conclusions. We can see that this information can be useful for schemes where specific allowances were made, although these are typically monitored through specific delivery ODIs such as our Delivery of South Wales Grid.  Care should also be taken when comparing the allowed and actual enhancement costs in isolation to base costs as there can be a mismatch cost categorisation in the Final Determination and the APR. Growth at Sewage Treatment works and reducing flooding risk for properties were included within the Botex+ models and therefore we are unable to assign an enhancement allowance within the table. The comparison between allowed costs and actual costs for these lines will therefore show an overspend.

Table	Line	Issue
		We propose to complete the allowed expenditure from the PR19 enhancement expenditure models. There are a small number of cases where the required inputs in 4L do not match the output format from the enhancement models. These include metering, security (SEMD and Non-SEMD) and sludge (quality and growth). For example, metering costs were allowed as a whole in the Final Determination, however the APR requires the allowance to be separated between meter requests by existing companies, new meters introduced by companies for existing customers and new meters for existing customers. Our proposal for these lines is to allocate the allowance in proportion to our business plan.
6A	12	The definition states that raw water and partially treated mains with the boundaries of water treatment works are excluded. 6A.5 and 5A.22 relate to raw water mains lengths, should the same exclusion be included in the definition for these two lines?
7C	5	We have always reported the number of sewer blockages consistently since JR08. Our methodology has been to exclude blockages caused by items being inserted in a man-hole i.e. non flushable items. It's not clear from the definition if these are valid exclusions. Please confirm your intent?
7F	All lines	Request further clarification is included within the RAGs to confirm the following: <ul style="list-style-type: none"> <li>• whether the total for capital expenditure and operating expenditure should agree back to 4M.28 and 4M.29 respectively?</li> <li>• on completing the cost drivers in columns R to T, the guidance would benefit from some examples being included; and</li> <li>• for those sites that currently do not a phosphorous consent – when a new phosphorous consent is given should the site be classed as an historical consent or an enhanced consent for phosphorus?</li> </ul>

**Q2. Do you any comments or views on the proposal for mandatory standardised reporting for operational GHG emissions, beyond those included in responses to last year's RAG s consultation?**

There is a need to align the proposed mandatory standardised reporting with other legislative requirements (Task Force on Climate-related Financial Disclosures and Streamlined Energy and carbon Reporting), to ensure that carbon footprint numbers aren't reported differently, externally.

Different scopes and associated numbers to meet the requirements, will make it difficult to ensure carbon footprints are reported transparently across all water and sewerage companies and could create confusion amongst our customers and stakeholders. Carbon accounting is complex and difficult, let alone if different numbers are reported externally for the same company to meet separate regulatory / legislative requirements. Although each of the reported numbers will meet the requirements, our customers and stakeholders will likely not be able to understand why different numbers are reported by the same company.

Similarly, to the energy consumption and cost Annual Performance Reporting, in despite of most water and sewerage companies using the Carbon Accounting Workbook, there is a need to create further guidance on what kind of emission sources are mandatory to report on. In particular to reporting scope 3 emissions there is a potential for companies to "cherry-pick" the emission sources, rather than following reporting criteria set out in the Greenhouse Gas Protocol Technical Guidance

on reporting scope 3 emissions. Sector guidance is needed to ensure that company carbon footprints are comparable and that similar measures (i.e. "Volume of waste water receiving treatment at sewage treatment works" and "Distribution Input") are used, to report relevant intensity metrics.

Lastly there is a need to create clear guidance on how carbon offsets should be reported and what kind of carbon offsets can be reported. There will be a need to offset emissions that are technically difficult and/or not cost efficient to abate (process emissions and/or embedded emissions) using offsets, to meet 2030 and 2040 targets set by the water and sewerage companies. Ofwat should encourage companies to only report credible offsets that meet best practise and are considered internally credible (e.g. Woodland Carbon Code, Peatland Code).

An aligned and standardised reporting methodology, including offsets, will ensure that the numbers are trusted and the potential perception of "green-wash" across the industry is prevented. The latter will ensure that water industry's response to the climate emergency is trusted by our customers and external stakeholders.

**Q3. Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?**

Best practice is to report location-based, as well as market-based carbon emissions, for both waste and water services. The latter provides a much better insight in the way carbon is managed within the company and provides an appropriate level of transparency. We would encourage Ofwat to adopt this best practise and incorporate this within table 2.

**Q4. What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?**

Each water company will be starting from a different point with regards to collecting embedded/embedded carbon data. There will be a great diversity of contract frameworks, structures and supply chains across the industry, with variable level of understanding and maturity. It may not be the water and/or sewage company itself that is the limiting factor for reporting, but the supply chain that delivers its capital investment programme, potentially stretching several tiers down into the supply chain.

Carbon accounting maturity and data availability across our supply chain is highly variable. This can of course be influenced, but not directly controlled by the water companies. A lack of agreed scope across the water industry at its supply chain partners, for reporting embedded emissions could hamper comparable reporting. Where emissions are recorded and reported, there may still be differences in what the Water Company considers to be in scope. Setting clear guidance (such as in Question 5 and 6) on exact scope, in consultation with industry practitioners, could help to overcome this.

There is no agreed standard set of conversion factors to convert construction activity data or design estimates to embedded carbon. Although there are some widely available data sets, these are however based on averages. It is possible to get bespoke information (for example, large concrete pours) from some suppliers, but this will not be consistent within or between companies and could differ in the scopes these numbers encompass (scope 1,2 or even scope 3 emissions). Clear guidance should be offered on which approach to take.

**Q5. Are there any particularly relevant frameworks or approaches for us and the industry to consider in relation to embedded emissions reporting and reductions? For example PAS2080?**

UKWIR produced “A Framework for Accounting for Embodied Carbon in Water Industry Assets (Report Ref. No. 12/CL/01/15)” in 2012 and this is currently being updated through UKWIR. This provides guidance on exclusions and inclusions for the embedded carbon within Water Company capital programmes. It is unclear whether this has been widely adopted, but it was produced with the aim of creating a consistent approach to whole life, including embedded, carbon emissions accounting across the water industry. It details what should and shouldn’t be in scope for decision making. This should be adaptable. It should be noted that this was developed before PAS2080.

Although PAS2080 is accepted best practice for carbon management within infrastructure, it does not provide a prescriptive approach to quantification and therefore reporting.

**Table 1 – The scope of PAS 2080**

PAS 2080 is about:	PAS 2080 is not about:
Carbon management (as part of wider climate change mitigation).	Wider environmental or sustainability issues <sup>3</sup> .
Consistency in the use of data, reporting, quantification, benchmarking, target setting, continuous improvement, leadership, inclusion in BIM, etc.	Prescriptive approaches to quantifying GHG emissions, including the use of specific data or methods.
Management of capital and operational carbon under direct control of the value chain, and user carbon over which the value chain has influence.	Management of user carbon which relies on government policy or action, or where other parties are better placed to manage.
Promoting whole life cost reductions through whole life carbon reduction	Whole life cost management

Image taken from the PAS2080 document.

It should put in place an effective framework for emissions reduction. However, it would be expected that any compliant framework within each company would be slightly different to take account of existing processes and requirements.

The EPD framework of breaking down the carbon footprint into different modules as per BS EN 15978:2011 and BS EN 15804:2012 and replicated in the PAS2080 document could form useful guidance on the scope of reporting. These emissions would be almost entirely considered to be Scope 3 emissions for the water companies.

**Q6. What area/s of data or other information do you consider we should focus on for voluntary reporting? For example:**

- Design, construction and/or maintenance activities
- Number and/or size of suppliers
- Project spend and/or value
- Input and/or materials
- Specific services
- Number of GHGs reported on by suppliers

Our approach has been to focus on key inputs/materials to create an as-constructed carbon account for projects and programmes. This covers all projects delivered by the Capital Delivery business unit

where possible. The scope is 'cradle to built asset'. Only focussing on higher value projects risks losing the impact of high volume, small spend projects.

However, we are also capable of estimating the greenhouse gas impact of capital interventions during the design process, estimating both Embedded and Operational carbon for a given solution. This could be reported, but comparability with other water company for reporting purposes is likely to be limited.

The end goal of reporting should be to shine a light on best practice and help to reduce whole life carbon. It is unclear how some of the suggestions in the question would effectively support this.

Embedded carbon reporting does not lend itself to easy analysis or comparison when reported as an annual number. Multi-year trends will be required to show patterns and genuine progress, for example:

- design and standards changes take time to get embedded and rolled out across the project within the investment programmes
- investment decisions are taken potentially a couple of years before a project reaches the construction phase
- the general cyclical nature of the 5 year AMP cycle, with construction activity peaking later in an AMP.

Consideration should be given to meaningful intensity metrics, that drive the right behaviour. This should go some way to be able to compare the carbon efficiency across companies with programmes of different sizes.

**Q7. Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?**

Business rates for the water service should be allocated at a price control level on the basis of profit or returns and allocated to sub price control levels as appropriate on the basis of MEAV as returns are not calculated at this level.

**Q8.**

- **Does your company jointly own or operate assets with another company?**
- **Should guidance be included in this area?**
- **What specific points should the guidance cover?**

We have no comments on this area.