



Official

Rob Lee

Principal Accountant

Ofwat

By email: [REDACTED]

20 July 2021

Dear Rob and colleagues,

**CONSULTATION ON REGULATORY REPORTING FOR THE 2021-22 REPORTING YEAR –
TIDEWAY RESPONSE**

Please see Tideway's response to this consultation in the annex to this letter.

Before the RAGs are finalised, we would welcome a discussion with Ofwat regarding Table 4B Analysis of Debt, as we currently believe it could lead to stakeholders drawing inaccurate conclusions. We will contact you soon to arrange a convenient time.

We are also keen to engage further with Ofwat regarding reporting of embedded greenhouse gas emissions and look forward to hearing about the workshops that we understand are being planned during summer-autumn 2021.

Yours sincerely

[REDACTED]

Matt Parr

Director of Strategy & Regulation

Protectively Marked: Official

Tel. 020 3744 4010

www.tideway.london

Bazalgette Tunnel Limited (trading as Tideway), Cottons Centre, Cottons Lane, London SE1 2QG
Registered in England and Wales No. 9553573. Registered office: Cottons Centre, Cottons Lane, London SE1 2QG

Annex: Tideway response to Ofwat consultation on regulatory reporting for the 2021-22 reporting year

Tideway has responded to the questions that are directly or indirectly relevant to our reporting.

Question 1: What are your views on the proposed changes to the APR tables in Appendix 1?

We have reviewed the proposed changes to the APR Tables listed in Appendix 1, where these affect tables that Tideway completes as part of its APR submission. We do not have any specific comments on any changes to line items listed in Appendix 1 and therefore have not completed the table requested.

Regarding Table 4B Analysis of Debt:

- Column definitions for Column 3 (C - Category) and Column 27 (AA – Issuance costs)– We are unclear, based on the guidance contained within RAG 4.10, what information Ofwat is expecting to receive within the new columns titled “Category” and “Issuance costs”. For issuance costs specifically, we consider that this could cover a wide range of fees related to issuance for example, legal, listing, agency, custody and ratings fees.
- Given the number of columns now contained in table 4B we would encourage Ofwat to also publish column definitions, alongside the line definitions contained within RAG 4.10. This would help ensure that companies report consistent information and reduce possible confusion about the information that Ofwat expects to receive.
- We would appreciate a discussion with Ofwat on its use of the information in table 4B as we currently believe it could misrepresent Tideway’s cost of debt. We believe it mixes subordinated and senior debt and incorrectly applies hedging leading to wrong weighting of exposures. We are concerned that users of this table could draw incorrect conclusions based on the information requested and would appreciate the opportunity to explore with Ofwat whether adjustments to the table could help to ensure a more accurate representation of Tideway’s position.

Tideway’s response to Ofwat consultation on regulatory greenhouse gas reporting

The following is included as context for our responses to questions 2-5:

The Thames Tideway Tunnel (TTT) project is in its construction phase and is currently 68% complete. We expect that handover to Thames Water will be achieved in 2025 and System Acceptance, the point when Thames Water accepts the tunnel asset, in 2026. Thames Water will operate the tunnel as part of the sewage collection and treatment system. Tideway will remain responsible for maintenance of the tunnel and shafts. The tunnel is designed to be in operation for at least 120 years.

The Thames Tideway Tunnel has a significant carbon footprint due to the embedded carbon within the built asset. At the time our Development Consent Order was granted in 2013, it was estimated that the total carbon footprint of the tunnel would be approximately 838,000 tCO_{2e}¹ with the principal impact being the greenhouse gas (GHG) emissions arising from the construction of the infrastructure, in particular embodied carbon in manufacturing of materials. This carbon in materials equates to approximately 84% of the total emissions, with emissions from construction plant and machinery (construction worksite activities e.g. tunnel boring and emissions from plant and machinery) being around 10% of the total emissions. The transport of excavated material and construction materials represents approximately 3.5%. The tunnel is a passive asset in operation; emissions during the 120-year operational life of the tunnel represent circa 2.5% of the total GHG emissions, which we refer to as operational carbon.

¹ Through the procurement process, the forecast carbon footprint was reduced to 768,756 tCO_{2e}.

The ability to change the carbon footprint of an infrastructure project of this nature in a significant manner is during the conceptual and design stages, with reduced scope to effect further reductions during the construction period. For example, it has not been possible to set carbon reduction targets that meet the criteria of the Science Based Targets Initiative as the carbon footprint is concentrated during the construction and commissioning period, with a natural tailing off towards the end of construction.

The table below details our embedded emissions and was included in our 2020/21 annual report (page 40) and also published in our Climate Related Financial Disclosure 2020/21 report.²

Tideway – embedded emissions

	2020/21 tCO ₂ e	Project to date tCO ₂ e
Scope 1 emissions		
Total scope 1 emissions	0	0
Scope 2 emissions		
Grid electricity used by Tideway (Bazalgette Tunnel Ltd) controlled offices at Camelford House and the Cottons Centre	40.58	355.67
Total scope 2 emissions	40.58	355.67
Scope 3 emissions		
Construction materials	84,075	291,125
Site accommodation and welfare	1,123	9,076
Material transport	1,366	13,417
Waste disposal	659	2,891
Plant and Machinery	7,090	31,516
Personnel transport	116	3,127
Total scope 3 emissions	94,429	351,152

Question 2: Do you have any other comments or views on the proposal for mandatory standardised reporting for operational GHG emissions, beyond those included in responses to last year's RAGs consultation?

During the construction phase (i.e. in the period to System Acceptance), we consider that all TTT project emissions should be categorised as embedded. This is in line with our approach to financial accounting, where Tideway capitalises all costs that meet the capitalisation criteria for assets under construction. We do not therefore expect to have operational emissions during this phase.

Post System Acceptance, as detailed in our introduction above, we estimate that our operational emissions will be low as the tunnel is a passive asset. The operation of the tunnel will be undertaken by TWUL and Tideway will only be responsible for the maintenance of the shafts and tunnel. We expect these emissions to form around 2.5% of Tideway's total carbon footprint over the 120-year design life. Operational emissions will come from the procurement of electrical energy from the UK's national grid electricity supply to power energy consuming devices located in pumping stations, odour control towers, access chambers, ventilation shafts and other structures associated with the tunnel. However, if the electrical supply comes from a Renewable Energy Guarantees of Origin (REGO) certified scheme, we could benefit from reporting zero carbon

² https://www.tideway.london/media/5100/j0114_-_climate-related-financial-disclosure-report-vis5-2.pdf

emissions if we purchase a 100% renewable electricity fuel mix. In addition, electricity supply is required to fully decarbonise by 2035 under the UK's Sixth Carbon Budget, which was announced in April 2021 and is expected to be passed into law.

Of the data shown in Table 2 in the consultation document, we expect to be able to provide data on grid electricity use. As referenced in our response to embedded emissions below, however, we consider that providing data broken down into the three GHGs requested rather than as tonnes CO₂e would pose significant challenges and we would be keen to discuss with Ofwat whether some flexibility could be provided in this respect.

Question 3: Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?

No response

Question 4: What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?

We have identified three key challenges:

- Achieving consistent and robust reporting
- Split of data between greenhouse gases
- Choice of framework (see response to question 5)

Achieving consistent and robust reporting

At Tideway our Main Works Contractors (MWCs) report against a set of specific carbon related metrics to show performance against their contractual, anticipated carbon footprint. They report to Tideway on a quarterly basis in tonnes CO₂e. The metrics we ask them to report against are captured under Scope 3 in the table above.

Embedded (embodied) emissions can be hard to report in a consistent and robust way and there is not one standard method or tool currently in use in the construction industry. Tideway has not specified which carbon calculating tool the MWCs need to use to calculate and track performance against their carbon footprint. However, most of our MWCs use their own company carbon calculator tool or a tool that is based on the Environment Agency Construction Carbon Calculator (EACCC) and use the same conversion factors used within it. In tools like the EACCC, the boundaries of the embodied carbon are specified i.e. cradle to gate, cradle to site. We suggest that Ofwat sign posts in its reporting guidance to a reputable tool or tools that are already used widely within the industry.

At Tideway we are not currently expected to exceed our anticipated carbon footprint of ≤768,756 tCO₂e. We are dependent on our MWCs understanding their works in great detail and tying any changes to the design or materials specification into their carbon model and alerting us to any potential impacts.

Having clear carbon reporting parameters and using reputable carbon calculator tools, has been important so that data across all contractors is consistent. This also feeds down into the supply chain, who provide data to Main Works Contractors. Greater education of and awareness among the supply chain will aid better carbon measurement.

Split of data between greenhouse gases

We strongly recommend that any reporting requirements for embedded emissions request data in tonnes CO₂e and do not ask companies to break down their emissions into the three different GHGs within the operational emissions requirement – CO₂, CH₄, N₂O. The contracts with our Main

Works Contractors were signed in 2015. Within the contract we ask our Main Works Contractors to report their carbon footprint in tonnes CO₂e, at this late stage in the project it would be very difficult to request a change in the way they report their data. Given the nature of their activities we appreciate that for operational emissions this breakdown may be useful in holding water and sewerage companies to account and driving best practice. We do not think however that the same applies in relation to construction/embedded emissions and are concerned that providing such data could be a challenging and costly exercise with unclear benefits.

Question 5: 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?

We strongly encourage Ofwat to discuss this question with industry groups already engaged in a coordinated approach to establishing a defined set of common metrics. For example, Tideway is a member of the Infrastructure Client Group (ICG) Infrastructure Carbon Task Group, which includes a range of Client organisations. One stream of work that the group is looking at is the development of a small set of agreed industry baseline metrics to allow progress towards net zero and to allow for benchmarking. In addition, the Construction Leadership Council (CLC) has developed the construction sectors response to the UK Government target of Net Zero by 2050 through CO₂nstructZero, who have set a number of priorities to deliver Net Zero.

PAS 2080 is a standard that Tideway considered when it was first published in 2016. We decided not to implement PAS 2080 processes as it came too late for us to include within the MWCs' contracts. In addition, the contractual processes that we had already established to measure and manage our carbon impacts were considered by us to be sufficiently robust and that adoption of PAS 2080 would not bring any further benefits. However, Tideway appreciates the value that PAS 2080 brings to reporting whole life carbon on infrastructure projects, and were we starting the project in 2021 it is likely that we would now adopt this framework.

Should Ofwat be considering PAS 2080 as a standard, we encourage it to allow flexibility in relation to projects initiated prior to PAS 2080 becoming an industry standard. The contracts with our MWCs do not require PAS 2080 to be used. For such projects one alternative would be to request a review of the approach adopted against PAS 2080 to assess how improvements in carbon reporting could be made for future infrastructure projects. We would be open to providing some examples of the lessons we have learnt if it would be helpful to Ofwat.

Question 6: 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**
- **Inputs and/or materials**
- **Specific services**
- **Number of GHGs reported on by suppliers**

We would support a framework for embedded emissions reporting that included the following:

- Quantitative data in a similar form to Tideway's 2020/21 voluntary reporting;
- SWOT analysis, as proposed for operational emissions, to encourage companies to reflect on their progress and how they could further improve; We believe a SWOT style assessment is contained within our Climate Related Financial Disclosure Report, which

aligns with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). We would suggest that water companies who align with the requirements of the TCFD requirements can use this to fulfil Ofwat's requirements for a SWOT analysis.

- Case studies to assist in sharing of best practice across the industry, perhaps captured within a learning portal. Ofwat may wish to specify particular areas (such as those listed in the question) in which it would welcome such studies.

As an example, case studies could highlight the importance of assessing embodied carbon impacts in all design decisions. One opportunity to reduce embedded emissions was identified by our MWC for the Central section (FLO) who reviewed our design and discovered that the main tunnel secondary lining could be reduced in thickness. This solution was accepted and led to reductions in material use with associated cost and embodied carbon savings of >7000 tonnes CO₂e. Although the driver for the design change was not carbon savings, often efficient design solutions lead to carbon savings. In the drive to net zero, reduction measures like this need to be identified, adopted and shared with industry as part of continuous improvement.

Tideway continues to search for further opportunities in relation to our embedded emissions, for example in relation to third party verification of our carbon data. In general however, we note that as projects progress, the balance of reporting is likely to shift from identifying opportunities for reducing emissions to capturing and sharing lessons learned. As the largest infrastructure project ever undertaken by the UK water industry we believe that the TTT project has generated (and continues to generate) valuable learning, and we hope that Ofwat's work in this area will create further opportunities to share and discuss this learning across the water, sewerage and construction sectors.

We encourage Ofwat to consider carefully whether any requirements that go further than those listed above – particularly quantitative reporting requirements – would be justified. For example, gathering data on number of suppliers within Tideway's supply chain would be a substantial task that would divert resources from project delivery. Should Ofwat be considering introducing further requirements we ask it to set out how it envisages that the data would be used, and what value it would add. We also ask that any such proposals be discussed with the industry.

We understand that Ofwat is proposing to arrange one or more industry workshops on GHG emissions reporting in summer or autumn 2021. We would be keen to attend such a workshop and if requested would welcome the chance to share our experience of reporting and reducing embedded emissions.

Questions 7: Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?

Not applicable to Tideway

Question 8: 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?

Tideway is constructing the Thames Tideway Tunnel on behalf of Thames Water. During the construction phase, Tideway does not jointly own or operate assets with another company.

Once construction is complete the asset is expected to be leased to Thames Water under a finance lease arrangement over the 120-year life of the asset. Therefore, post system acceptance,

we consider that the accounting for the Thames Tideway Tunnel as a finance lease is the most appropriate accounting basis under IFRS.

We are supportive of Ofwat developing guidance in this area and would be keen to participate in its development (and subsequent revisions) to ensure it appropriately reflects the anticipated accounting treatment and reporting approach for the Thames Tideway Tunnel during its operational phase. We would look to follow any guidance that Ofwat issues once construction is complete.