



Official

Ref: 2340-TDWAY-TTTUN-990-ZZ-CO-700135

[Redacted]

Ofwat

By email: annual.reporting@ofwat.gov.uk

3 March 2023

Dear [Redacted],

CONSULTATION ON REGULATORY REPORTING FOR THE 2022-23 REPORTING YEAR – TIDEWAY’S RESPONSE

Please find Tideway’s responses to the consultation questions in the annex to this letter. Our responses reflect that Tideway is a project deep into its construction phase, and that (as in previous years) some of the proposed requirements are not applicable to Tideway’s business or may not be suitable in the form proposed.

We note that Tideway was not part of the engagement with companies on disclosures relating to swaps that is referenced in paragraph 4.1 of the consultation document. In future, we would be grateful if Tideway could be included in such engagement exercises whenever the discussions concern reporting requirements that are likely to impact us.

We raise a number of clarifying questions in our response and have sent you a separate email collating these. We would welcome a meeting to review these questions with relevant Ofwat colleagues at your earliest convenience.

Yours sincerely

[Redacted Signature]

Senior Regulation Manager

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 – response to consultation questions

Question 1: What are your views on the proposed changes to the APR tables listed in appendix A3 and set out in full in RAG 4?

<i>Table</i>	<i>Line</i>	<i>Issue</i>
4V	All	See question below this table.
11A	48-49	As Tideway is not subject to PR19 or PR24, we do not have a formal distinction between base and enhancement expenditure. We would welcome Ofwat guidance on the appropriate categorisation of emissions relating to the Thames Tideway Tunnel (TTT). As a starting point we propose that all of Tideway’s cradle-to-gate emissions are reported in line 49, “Capital projects (cradle-to-gate): construction (enhancement expenditure)”, with a footnote to explain the lack of a link to price control categorisations. Should Ofwat prefer we could report the emissions in line 48, “Capital projects (cradle-to-gate): construction (base expenditure)”. We do not see any value in attempting to split emissions between these two lines.
11A	50	Tideway considers that during the construction phase of the TTT all activities should be classified as construction activities rather than maintenance and would welcome Ofwat confirmation on this point.
11A	52-55	<p>Tideway collects information on a) electricity consumption of site accommodation and welfare and b) waste disposal. We do not collect information on other elements of gate-to-build emissions e.g. fuel used in plant, and the current view of our carbon consultant is that it will not be possible to derive a fully comprehensive footprint from the information available.</p> <p>As set out in our response to Question 8, it is not possible at this stage of the TTT project to obtain additional information from our contractors on such emissions. In light of this we would welcome a discussion with Ofwat on the best approach to reporting in 2022/23 and subsequent years, e.g. reporting the information that is available, explaining its limitations, and seeking an appropriate derogation if needed.</p>
11A	56	Tideway reports purchased goods and services within its cradle-to-gate embedded emissions figures. Having reviewed the relevant definitions within draft RAG 4.11 and PAS 2080, we are unclear how the information requested in line 56 relates to the cradle-to-gate figures in lines 48-51, and what additional information Ofwat is seeking in this line. We would welcome further guidance on this point.

[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

Questions 2-4: No comments

Question 5 Do you have any comments on our approach to continue to align the GHG reporting requirements to the latest version of the Carbon Accounting Workbook?

Question 6 Do you have any comments on our reporting guidance for GHG intensity ratios?

Question 7 Do you have any comments on the proposal to expand the scope of mandatory reporting for operational GHG emissions?

These questions relate to operational emissions. As indicated in Tideway's response to the 2021/22 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, 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.

In its October 2021 “Consultation on regulatory reporting for 2021-22 – Responses document”, Ofwat agreed with the above position, stating, “Tideway considers that all its project emissions should be categorised as embedded. We agree in as much as the Thames Tideway Tunnel project is in its construction phase and upon completion will be handed over to Thames Water. Thames Water will then become responsible for reporting on its operational GHG emissions. Therefore, Tideway should continue to report on embedded emissions as they have done for the reporting year 2020-21 but should be mindful of our response to the reporting of embedded GHG emissions detailed below”.

In line with this previous exchange, Tideway will continue to report zero operational emissions for 2022/23. Please see our views on the reporting of embedded emissions in response to questions 8-11 below.

Question 8: Do you have any comments on the introduction of our mandatory framework for the reporting of embedded emissions?

Tideway’s comments and questions on the specific reporting requirements in draft table 11A are set out in our response to question 1.

Our general comments are as follows:

- Tideway welcomes the introduction of mandatory reporting of embedded emissions. We have been collating embedded emissions data since 2017 and publicly reporting on embedded emissions within our Annual Reports since FY 2018-19. The data has come from our Main Works Contractors (MWCs) who are required to 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 against which we ask them to report are captured under our Scope 3;
- As a project that is over 85% complete, and with very limited scope to change the requirements on our contractors, we are not able to adopt different approaches to reporting our embedded carbon. Attempting to change these requirements would involve a formal contract renegotiation, which could lead to commercial outcomes representing poor value for money for customers;
- The majority of the potential carbon savings on construction projects are realised during the design and procurement phases; once construction is underway the opportunities for further savings are much more limited;
- We consider that Tideway’s experience of reporting embedded emissions on a major project may be helpful to other companies developing their own embedded emissions reporting. In addition to the content of our SWOT analysis, we are happy to engage in any Ofwat-led or other processes to share our experience and lessons learned.

We would welcome a meeting with Ofwat to discuss these comments and questions on the proposed 2022/23 embedded emissions reporting framework.

Question 9: Do you have any comments on distinguishing between construction and maintenance activities for the reporting of capital project emissions?

Tideway considers that during the construction phase of the Tideway project all activities should be classified as construction. Looking ahead to future years, we are considering internally what project milestone may be suitable as the point at which activity ceases to be considered as construction and starts to be considered as maintenance.

Question 10: What are the key challenges that need to be considered and addressed in introducing a rating system designed to facilitate increased standardisation and continual improvement in the reporting of embedded emissions?

Tideway would appreciate further information on the drivers for the proposed rating system.

In the early years of a new reporting requirement, we believe that efforts to help and support companies in improving their reporting practices are likely to deliver better results than 'naming and shaming'. For 2022/23 embedded emissions reporting, we propose that Ofwat does not introduce a rating system but instead publishes examples of good practice and/or holds a workshop to share and discuss such examples. If appropriate, examples of poor practice could be published on a generalised or anonymised basis, with any specific feedback on poor performance and/or areas for improvement being shared with companies individually.

In our view, Ofwat should consider a rating scale only if companies fail to act on feedback from 2022/23 reporting without clear justification. The following are important considerations in introducing any scale:

- Ofwat should take into account particular constraints that companies face in embedded emissions reporting, in particular that reporting requirements from the supply chain will typically be specified at the start of any project and may be difficult and/or costly to change. In such cases, Ofwat may wish to challenge companies to include information in their SWOT analyses on whether the requirements represented best practice at the time they were specified;
- A numbered scale, with (for example) 5 being exemplary and 1 being poor performance, may be more effective than a traffic light system;
- Whatever system is considered, Ofwat should set out clearly in advance what criteria companies are expected to achieve and how it will carry out its assessment; and
- Published ratings should be accompanied by information on how companies can improve and move up a level, or equally what would make them drop down.

Question 11: Are there are any particular frameworks or approaches our traffic light system should consider in determining differing levels of progress and what expected progress should look like?

As set out in our response to question 10, Tideway does not consider that it would be appropriate to introduce a rating system for 2022/23 reporting. Should Ofwat be considering such a system in future years we would be happy to discuss how this could best be linked to existing frameworks.

Question 12: Do you have any comments on requesting a SWOT analysis that covers both operational and embedded emissions?

Tideway undertook a SWOT analysis on embedded emissions in 2021/22 and found it a useful process. We would welcome any comments or suggested improvements from Ofwat on this analysis.

Our analysis was published as part of our Sustainability report.¹ We would welcome confirmation from Ofwat that it is content for companies to provide this analysis within a separate document, with a clear cross reference within the Annual Performance Report.

Question 13: Do you have any comments on our proposed changes to disclosures in the Statement on dividend policy and explanation of dividends paid set out in RAG 3?

As Tideway does not pay dividends, we would not expect changes to this requirement to impact our 2022/23 reporting. We expect to continue with our approach of previous years, where we include an explanation in our Annual Performance Report of why we do not pay a dividend.

Question 14: Do you have any comments on our proposed changes to disclosures in the Statement on executive pay and performance set out in RAG 3?

No comments. Tideway expects to continue to report against these (modified) requirements in 2022/23.

¹ See page 12 of <https://www.tideway.london/media/5689/tideway-sustainability-report-2022.pdf>