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**WWF-UK's comments on Ofwat's Consultation
'Negotiating Bulk Supplies – a consultation on our Guidance'**

This document sets out WWF-UK's responses to the above consultation.

Ofwat issued its 'Negotiating Bulk Supplies – a consultation on our Guidance' documentation in December 2012. The consultation, which is open until 12 March 2013, requests suggestions for ways in which the draft guidance could be improved. This response sets out WWF-UK's suggestions.

Overview comments

WWF-UK support the use of bulk water supplies between companies to maximise the efficient use of sustainably-exploitable resources. We therefore welcome Ofwat's efforts to streamline processes to encourage exporters and importers to strike mutually advantageous arrangements to transfer water between them, and to remove barriers to water trading. We agree that this is best done by providing a flexible framework that provides guidance and freedom to parties to agree appropriate arrangements between them. Model contracts could stifle such freedoms, and we are pleased to see that Ofwat is recommending a non-prescriptive approach that encourages parties to strike appropriate deals that meet the needs of their customers.

We support the development of environmentally-sound water trades:

- under normal operating conditions, when low all-in cost water sources can be used within their environmental limits to reduce abstraction from higher cost and/or more environmentally sensitive sources elsewhere;
- in periods of dry weather and drought, when surplus in one area can be used to reduce deficits in another, to the benefits of people, the environment and the economy.

Individual contracts may cover the full range of situations, whereas some may be drought-only or non-drought agreements, so each will need to specify terms, quantities, prices, exceptions and default provisions.

Given the primacy of the design dry year condition in water resources planning, and the obligation upon companies to provide security of supply in events up to and including that design dry year (in its Water Resources Management Plan) and in more extreme drought years (through its Drought Management Plan), most bulk supply agreements will need to specify terms for supply under design dry and drought period conditions. Importing companies need confidence that the supply they have negotiated will be provided to contract terms in critical events (dry and drought years), else they will be tempted to continue with the preference to develop and control their own resources that has impeded the development of trades since privatisation. Section 4.10 of the Consultation document addresses this critical matter; but the importance of this issue should not be under-estimated. Providing definitions and measures of

drought will be important for drought period agreements. The way in which bulk supplies affect Levels of Service to customers in exporting and importing areas will also need to be considered robustly. Asset ownership and operating rights issues will need to be addressed carefully, particularly in shared responsibility cases.

We believe that the proposed move to a TOTEX approach and the improvement of financial incentives to exporters and importers to share available supplies will encourage increased water trading. They have our full support. Providing encouragement and incentives to companies to manage water resources more innovatively also has our full support.

Increased water exports that use increased volumes of water taken from licensed but already over-abstracted or over-licensed abstraction points would, however, be net detrimental. We want to see reductions in over-abstraction, and no creep of position from over-licensed into over-abstraction situations. We therefore want to see full and proper controls being used to prevent trading leading to any over-abstraction of sources. The Abstraction Incentive Mechanism (AIM) provides one means to address this risk, and we support its effective implementation as a control on environmentally-insensitive abstraction.

WWF-UK, 11th March 2013