

# Meeting note

Wednesday 11 April 2016  
 Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
 10.00 am to 3.30 pm

## Sludge working group – 3rd meeting

Attendees	
Adrian Mercer	Veolia
Simon Black	Anglian Water
Dave Musco	Yorkshire Water
Alec Llewelyn	Northumbrian Water
Jon Latore	United Utilities
Tom Lissett	United Utilities
Kevin Wightman	Southern Water
Helen Richards	South West Water
Mat Davis	Environment Agency
Matt Wheeldon	Wessex Water
Sam McGauley	Severn Trent Water
Peter Trafford	Thames Water
Daniel Davies	Dŵr Cymru (Welsh Water)

## Meeting purpose

The purpose of this meeting was to discuss:

- Sludge working group terms of reference;
- Market Information Platform (MIP): operational requirements, purpose and content;
- Market Information Platform: Design and Governance;
- Market Information Platform: Industry view of costs;

- Sludge Market Interactions: Potential market interactions, what are the different approaches? What are the costs and benefits of each approach?;
- Actions and setting the agenda for next meeting.

<b>Action</b>	<b>By whom</b>	<b>Deadline</b>
Ofwat to circulate details of the next meeting. Provisional dates discussed for the next meetings being on the 15 <sup>th</sup> June and the 7 <sup>th</sup> July.	Ofwat	TBC
Comments to be sent to Mat Davis (Environment Agency) with regards to environmental regulations and potential topics for discussion. Mat is to arrange a sub working group to discuss these items.	Attendees / Mat Davis (Environment Agency)	It would be useful to receive comments prior to Ofwat's meeting with the EA on 9 <sup>th</sup> May

## Notes of the meeting

### Terms of Reference

No one objected to publishing information on the terms of reference (ToR), meeting notes and workshop materials on the Ofwat website. Ofwat will update the ToR and circulate around for comment.

### Market Information Platform (MIP): Operational Requirements, Purpose and Content

This section was facilitated by Jon Latore (United Utilities) with a presentation given about the operational requirements for the Market Information Platform (MIP). The presentation slides accompany this meeting note, detail some ideas around the operational requirements, including considerations around what information would be useful and most helpful to collect and what information is needed.

#### Considerations and the purpose of the MIP

**Accuracy of Data:** Attendees considered that there is a big trade-off between cost of providing data provision and data quality and comprehensiveness. There were views the MIP needs to be organised in a cost effective way to ensure it does not erode the benefits of the market. It was thought that data requirements did not automatically have to be the same for all sites. For instance the data requirements could be determined by the size of the works.

**Purpose of the MIP:** Attendees considered that the MIP should be a tool to help parties initiate a trading discussion and create awareness. The level and accuracy of the data should reflect what entrants are likely to need in order to enter into negotiations with companies. It is through the contract negotiations that companies will aim to obtain more accurate data and carry out any necessary sampling programmes. One attendee raised a question about who would pay for the installation of meters and the sampling programme at this point.

**Waste Water Treatment Works & STC's data requirements:** Attendees discussed whether information was required on both Waste Water Treatment Works (Demand) and Sludge Treatment Centres (Supply). Some attendees questioned the need to provide information on Sludge Treatment Centres as it was considered that the market could materialise without it. One attendee thought it might be useful to provide capacity information to indicate which STCs had available capacity to treat sludge. It was considered that the market would drive capacity availability. It was

likely that capacity could be made available (either through re-routing sludge or building new capacity) if the value of the trade was sufficient to justify such a change. It was noted that capacity data could help to provide short term solutions and could incentivise optimisation of assets but that companies would make capacity available if the price incentivised them to do so.

**Market Development:** One attendee noted that it was not possible to predict what sort of market would form. For instance it should not just be assumed that the market would only result in long-term trades. Trades may form on a short-term basis to provide companies with alternative sludge treatment routes during emergencies or maintenance periods. It was important to ensure that the information collected should support different types of trades occurring. One attendee considered that the information appeared to be static and raised the question on whether companies should provide information on their long-term plans.

**Cost versus price:** There was agreement in the group that a future meeting should discuss pricing in general with a focus on cost versus price data and utilisation versus capacity data.

### **What information is needed?**

Attendees considered that the information should, in general, be gathered at an individual WWTW level. This should be collected at the point where the sludge has been produced, rather than after it has been dewatered. One attendee considered that companies already collect this information in some way, even at their smallest works (although the type of information and level of accuracy is likely to differ). Despite differences in the level of accuracy many attendees thought it would be of sufficient quality for the information database, which should keep the costs of supplying information low.

### **What information is needed?**

It was agreed that some of the variables are difficult to measure and it would be useful to explore if there would be any suitable proxies. There was general agreement that there should be a form of standardisation in the data collected. It was agreed that it would be important to try to gather information on what percentage is coming from trade waste and what percentage is from domestic waste. It was also discussed whether it would be useful to provide a measure of metals and the presence of foreign bodies.

There was agreement that the MIP should be simple in order to reduce cost of data collection, to make it useful for new entrants and ensure it works well. This could

then help facilitate further discussions in the market. It was agreed that appropriate information from works could consist of:

- Location
- Quantity
- Process type
- Owner and central contact details (not individual)

## **Market Information Platform: Design and Governance**

The third item on the agenda was facilitated by Ofwat and discussed a summary of the December consultation attendees along with the options for design and governance for the platform. The options presented were for a company website based design, company based with specific data standards, an integrated third party system or a web based GIS platform. A timeline for development was also discussed.

### **Design**

Attendees discussed when the data would be published and how often it would be refreshed. It was noted that it would depend on how much of the data requirement was static and how much was dynamic, highlighting that there would not be a vast change in demand side data but supply side data including capacity data could change quickly. Suggestions were made to set a frequency for updating the MIP with there being an option for companies to voluntarily update the MIP in the interim if required. Attendees were concerned over publishing confidential contract price information on the MIP, although noted that this could more readily be provided to Ofwat.

### **Governance**

Attendees discussed where the information should be held. It was considered that having the information held on company websites would reduce costs for companies however there are benefits for new entrants in having this information centrally. Attendees considered that if the demand side data was in a simple format, such as on a spreadsheet, then it would be easy for it to be held centrally, possibly on Ofwat's website. Holding the information on Ofwat's website was discussed as a potential option as an alternative to the ideas presented initially, although this could also be done elsewhere, for example on Water UK's website.

The group discussed the role of companies, Water UK and Ofwat in ensuring that information was provided and therefore where it was held. It was considered that

Ofwat in its role as the economic regulator had more powers to mandate the provision of information than the other bodies. Therefore, Ofwat was considered as the best host of the information database.

### **Timelines for development and implementation**

The group discussed the timings for rolling out the MIP. It was argued that a phased introduction would mean that data management and renewals would be easier however if the information is simple could we start to provide this earlier.

Suggestions such as a soft launch to test the data ahead of the date where the MIP would go live could help the transition however points were raised about the issues of releasing information before the longer term rules are finalised.

It was acknowledged that there is a large transition between a regulated market and a non-regulated market. Company boards are concerned about knowing the rules behind the market and understanding how contracts formed now could be treated at the price control.

Attendees discussed the frequency of updating information. It was considered that if a site was under a long-term contract that it might only be necessary to update the information once the site became available for retender.

## **Sludge Market Interaction**

This session was facilitated by Kevin Wightman and demonstrated two different models for what the market could look like showing the different interactions and approaches. The group discussed the costs and benefits of each approach.

### **Model 1: Network+ is the buyer**

Network+ business procures sludge services from either third party or its own sludge business at the best value. Sludge business unit loses revenue if it can't compete. This sludge business have a strong incentive to compete with the other third parties.

The main points discussed around this model include:

- RCV protection could mean customers pay more
- Who is accountable for the sludge? Who has the duty of care?
- Network+ has to perhaps contract with transport and treatment
- There could be a need for a true up to reflect market prices after the 5 year period.

## **Model 2: Sludge business is the buyer**

This model where the sludge business decides whether to buy in the services.

The main points discussed around this model include:

- Easier to un-bundle / bundle up services e.g. transport / treatment / disposal
- Outsourcing rather than trading decisions
- Difficult to see this model bearing volume risk
- Less preferable to a new entrant
- Sludge business unit benefits from getting lower cost treatment
- Information provision is provided by the sludge business unit, so would it charge information to sewerage treatment centre level?
- Perverse incentives on quality and quantity of sludge from network plus.

The group considered that there was not a large difference between the two models, although it is useful to consider them when discussing the aspects of the sludge market. Most attendees considered that the first model would be more favourable to entrants. Another attendee considered that the models might give rise to different behaviours.

## **Next Meeting and Agenda Setting**

The next sludge working group meeting is scheduled to take place on 15<sup>th</sup> June 2016. Ofwat will send out an agenda prior to the meeting.

The EA noted that at many of the sludge working groups attendees have shown an interest in the environmental regulations. The EA said that they would be happy to discuss these further, although there was a question on whether this should be done as part of the sludge working group or as a sub-group. The EA and Ofwat are due to have a meeting on 9<sup>th</sup> May and could discuss how to take this forward. It would be useful before this meeting for attendees to provide their views on what forum and which topics they would most like to discuss.