

Meeting note

Monday 30 January 2017
 Darwin Room, Ofwat, City Centre Tower Birmingham,
 10:30 am to 3.15 pm

Water2020 Sludge working group – eighth meeting

Attendees	
Jessica Allen	Anaerobic Digestion and Bioresources Association
Laima Andrejevaite	Water Industry Commission Scotland
Simon Black	Anglian Water
Mat Davis	Environment Agency
Sam Evans	Yorkshire Water
Doug Grieve	Grieve Strategic
Frank Grimshaw	United Utilities
Robert Harvey	Severn Trent Water
Henry Leveson-Gower	Defra
Alec Llewellyn	Northumbrian Water
Alexander Maddan	Agrivert Ltd
Charlotte Pinton	Welsh Water
Louise Powell	Gemserv
Peter Trafford	Thames Water
Matt Wheeldon	Wessex Water
Kevin Wightman	Southern Water
Mark Worsfold	South West Water
Colin Green	Ofwat
Alison Fergusson	Ofwat
Justine Dade	Ofwat
Khaled Diaw	Ofwat

Introductions

Ofwat welcomed attendees to the working group meeting. The group was informed that the current form of the working group was approaching its natural completion, but Ofwat would continue to engage with stakeholders on more targeted issues.

Successful bid activity (facilitated by Agrivert Ltd)

Agrivert presented slides on information to be published on successful contracts. The objective of the contract information was to allow contractors and other stakeholders to identify gaps in the market. The first set of slides illustrated what information is required in the EU journal, which was difficult to access by interested parties. The second part of the slides set out the proposed template of contract information that could be published by the companies.

Some key points of the proposed contract information are:

- Wastewater treatment works should have meaningful names including the town they serve – currently not all wastewater treatment works names are intuitive.
- Commercial information set out in the template should be limited. The aim of the information was to allow market participants to understand where opportunities could arise now or in the future. The value of the contracts was not required as it is commercially sensitive.
- The number of tenders received would give stakeholders an idea of interest in a particular service.

The aim of the information was to give potential contractors an idea where opportunities exist but not do all the commercial assessment work for them.

The working group was asked for feedback on the proposed template, including whether there was any gaps. Key points raised by members of the working group included:

- Whether the contract information was in addition to the physical market information. Ofwat confirmed that it would be. It was also raised that having different names to WwTWs in the contract information and the physical market information could be confusing.

- Whether there was another stage of information that outlined the opportunities available.
- One attendee asked whether a map existed of opportunities in the food waste industry. An entrant thought that there was no central location and any maps were produced by individuals. Information is held in the EU journals, however, it takes a lot of effort to identify this information.
- A key factor that would be useful for stakeholders was to understand how much of the sludge was indigenous versus how much sludge came from satellite sites.
- There are three elements that the contracts could cover: treatment, logistics and recycling. The type of service is likely to attract interests from different parties. It was considered that it might be useful to have a standardised category to identify which service the contract covered. This could include a fourth category: 'Other'.
- It was asked what Ofwat's expectation was for updating contract information following mergers or company ownership changes as another person would be taking over the contract. It was thought that making changes to the information would be the responsibility of the water company.
- The unique reference number specified in the contract information could be tracked back to the physical information. It was thought that it might be useful for the contract information to be embedded in the physical market information.
- It was asked if two water companies traded, whether they would both be required to publish contract information. It was considered that as Ofwat could not require entrants to publish information it would make sense that it was only the sludge producing company that published such information.
- It was asked to what extent companies were required to publish contracts that were not activated, for example, 'call-off' contracts. Formal call-off contracts exist in the water industry. A member of the working group considered that publishing these types of contracts may actually hinder the market.
- It was asked how information on the volume of sludge should be specified for contracts where the sludge volume changed weekly. It was thought for this type of contract that a range should be provided in the 'scale of activity'.

- One participant found the different requirements of the physical information and the contract information confusing. It was suggested that a flow chart would be useful, detailing when companies were required to populate the different templates and whether it was pre- or post- contract.

Ofwat asked the question on what sort of format would be useful to allow stakeholders to search this information. One member thought it would be useful to combine the physical market information and the contract information. It was thought that the only additional information on the contract template not currently included in the physical market information was the contract and the contract length.

Assurance of the information was discussed. One member did not think it would be a problem updating the data regularly. It was thought the assurance was only required on annual basis but not necessarily during the year.

Market information – timetable and next steps (facilitated by Ofwat)

Ofwat provided an overview of its draft proposed timetable for consulting on the proposed Direction. This Direction will bring together the physical and contract information and will take into account the views from today's working group. It will include the guidance document and the data templates. This consultation process will also be discussed at the Regulatory Accounts working group (RAWG).

Ofwat plan to publish the Direction consultation soon after the licence conditions get enacted. Due to the timing of the new licence condition companies will not be required to publish the information for 2016-17. Therefore, it is hoped companies will publish this information on a voluntary basis later in 2017.

A working group member thought that the licence conditions were for PR19 and questioned whether information could be required before 2020. The member also thought assurance around the first year's data should be on a 'best endeavours' basis only.

Environmental regulations – an update (facilitated by Defra and the Environment Agency)

Defra and the Environment Agency (EA) provided a short update around the environmental regulations following the workshop held on this topic in July 2016. This item was discussed in the context of Defra's constraints that had materialised as a result of Brexit. Defra confirmed that the EPR system remains a valid regulatory

approach for spreading mixed materials to land. The EPR system is flexible and it is possible to make amendments without a need for legislative change. In the most immediate timeframe this can include the option of EA regulatory position statements, and in the longer term it might include amendments of EPR permit controls.

The EA outlined an example of Standard Rules Consultation No. 14, where it had updated standard rules for land spreading permits to incorporate previous regulatory position statements. The updated rules had been published on 6 January 2017. This was an example of where the EA had revised the rules following evidence and listening to concerns of stakeholders as well as discussion in the July workshop.

Following the update provided by Defra and the EA, some delegates remained concerned that the current environmental regulations will act as a barrier to the development of the market.

Defra considered there to be a lack of evidence around a regulatory impact assessment and £m benefits to make the case for legislative change around the co-treatment of sludge with other waste. It advised that water and waste industry should create the evidence base and to engage with the EA on the risks. Defra confirmed that the waste team is responsible for the waste controls under the Environmental Permitting Regulations.

Transfer pricing and form of bioresources control (facilitated by Ofwat)

Ofwat provided an overview of discussions held on the form of control workshop with water companies on 17 January 2017.

Total Dried Solids (TDS): The form of control workshop had discussed the definition for TDS. The definition had been revised following the discussion at this workshop. Anglian Water have subsequently suggested some further changes to this definition.

The definition was further reviewed by the working group. Key points mentioned from the group were:

- In the Anglian definition rags and grit would be measured separately and added in to the measured sludge entering a treatment process. Where third parties took sludge on behalf of a company the incumbent company would need to rely on measurement by the third-party.
- Liquors going across the boundary would need to be measured for charging purposes but not for the calculation of TDS. One respondent raised the issue that there had not been discussions on how liquor should be charged between sludge business and network plus.
- TDS measures what goes through treatment, therefore it was likely that it would be calculated by adding sludge from different sources together. This is important, especially for companies treating other companies' sludge.
- Losses in sludge arise through treatment, including when sludge is stored. This means that what enters into treatment may not be the same as what is measured at the boundary.
- It was questioned on who is the owner of the meters, network plus or bioresources, and that this needs clarifying in the Regulatory accounts guidance.
- Ofwat asked whether it needed to specify what grit and screenings are included. One attendee thought that is was not currently clear. Overall the group had mixed views on whether it would be useful to define what is and what isn't included.
- The statement "by instrumentation rather than spot sampling" was unclear.
- There was a need to have validation and regular calibration of instrumentation to ensure that the measurement remains valid.

There was a brief update on general form of control issues discussed on 17 January which outlined there is a risk of over- or under-recovery of revenue. It was considered that there are two risks: Over- or under- estimation of volume and whether charges had been set right. It was also questioned on what would happen if the business is no longer sustainable due to falling revenue.

Transfer pricing: Ofwat also gave an update on the transfer pricing. An email was sent to water companies about a month ago to arrange visits to further understand the key issues on transfer pricing.

Wrap up session (facilitated by Ofwat)

As mentioned in the introduction, this is the last sludge working group in its current format, although engagement would continue with stakeholders on more targeted issues. As the last working group, Ofwat welcomed feedback from respondents on how the working groups had been ran.

Key feedback from respondents included:

- It has been a good forum to discuss a range of issues.
- It was good to have the environmental regulatory debate, bringing the issues out in to the open.
- There was a good mix of technical and regulatory people from the companies.
- People have learnt something new.
- Where there was a mixed agenda, it would have been useful to have one technical and one regulatory person attending the meeting from each company.
- The working group had covered all the main issues it set out to discuss.
- It was good to have many different stakeholders present.
- A new entrant had found it very valuable to gain understand of the regulatory structure that WaSCs operate in. It would have been useful to get Scottish and Northern Ireland attendance as sludge travels quite far.
- It was not clear from the meeting notes what Ofwat's decisions were as a result of the discussion.
- Having longer sludge working meetings face to face in Birmingham was much more useful than having shorter meetings over telephone.

Ofwat emphasised that its door remains open for engagement with stakeholders.

Appendix: Note circulated by the Environment Agency to support the discussion on environmental regulations

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Working ideas of an evidence ask of Water Companies

Working with the Environment Agency to evaluate current operational practices and any issues this raises around...

Sludge

Identify all sites and their assets which produce, receive or treat sludge. Details to include:

- Name and location of site/asset
- Types of sludge activity i.e. produces, receives, treats
- Estimated annual tonnage (wet) of sludge produced, received and treated
- Type of treatment (where applicable)
- The provision within the regulatory framework which is relied upon to operate asset(s) at the site e.g. installation environmental permit, waste operation environmental permit, waste exemption, Controlled Waste Regulations, other
- Where sludge leaves the site for further treatment, storage and final use/disposal, the quantity (dry solids) and regulatory provision(s) relied upon e.g. Sludge Use in Agriculture Regulations, environmental permit, exemption, installations permit for incineration

Industrial wastes

Identify all sites which receive industrial wastes other than via public sewerage network. Indicate as appropriate:

- Method of delivery i.e. tankers, dedicated pipeline, other (specify)
- Point of delivery (asset receiving the material) i.e. storage/balancing tanks, directly to head of works, anaerobic digester, other (specify)
- Estimated annual tonnage (wet) of industrial waste received
- Waste types including whether non-hazardous only, hazardous only, or both
- The provision within the regulatory framework which is relied upon to operate the asset e.g. installation environmental permit, waste operation environmental permit, waste exemption, Controlled Waste Regulations, other
- Where sludge leaves the asset for final use/disposal the regulatory provision relied upon e.g. Sludge Use in Agriculture Regulations, environmental permit, installations permit for incineration

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Additional Notes:

- Where relevant include consideration of any third party contractors used to manage sludges
- Consider any activities which result in sludge not being reported under the satisfactory sludge disposal/use measure.

Prepared to support a discussion to be held at the Sludge Working Group meeting, 30th January 2017.