



Market Information Consultation Response
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

4rd July 2017

Dear Sirs

Bioresources and water resources market information consultation

Affinity Water welcomes the proposals put forward in the consultation and we have responded to the specific questions below. We have limited our responses to the water resources market opportunities.

We recognise the potential value to customers from the sharing of information on water resources, the removal of barriers to promote further trading and the efficient use of resources in a regional and potentially national context. We see this as particularly relevant to address the issues of water scarcity in the South-East of England.

We have actively promoted the opportunities that would be afforded by establishing regional co-ordination of water resources. In the short term this would focus on investment and conjunctive use of all available resources between water companies and other suppliers through Water Resources in the South East (WRSE) and Water Resources East (WRE) and we are making some progress. In the longer term such regional co-ordination might extend to seasonal, weekly and even daily optimisation of resources between suppliers.

The information platform proposed will aid the development of trading and regional co-ordination but we believe this opportunity would be enhanced if it were to be extended to an additional element capturing the average, marginal and long run marginal cost (LRMC) costs of existing transfers also. The price of existing transfers reflect from average or shared cost of resources through to a proportion of large user tariffs and indeed full metered supply costs therefore are often not cost reflective or comparable which constrains efficient utilisation and may result in a cross subsidy from the customers of one company to another. These issues are not currently being explored within the WRSE and WRE regional studies and a common cost platform would make the cost of existing transfers transparent and bring them within the market.

We are developing proposals for an additional information sharing template for this purpose as well as outline proposals for a regional co-ordinator body that may be helpful to promote multilateral trading in the competitive market which remains difficult under the current WRSE and WRE arrangements. The current joint studies produce total cost for a multi-lateral solution but do not disaggregate costs to company level in order to remain compliant with current competition rules thus leaving arrangements to be negotiated through bi-lateral discussions that almost always fall short of the multi-lateral modelled solution. We would be pleased to discuss this further before sharing with other companies.

Responding to the specific points in the consultation:

1. We consider the information you propose to require companies to publish will be helpful, provide greater transparency in the water resources, demand management and leakage market.
2. As described above we think the sharing of information could go further to remove market imperfections related to existing non-cost reflective transfers which is not addressed in regional modelling.
3. N/A
4. No
5. The timing of the publication of information will be during the consultation period of company draft Water Resources Management Plans so we see this as consistent with opportunities for representations during the consultation period of those plans. This may raise the risk of new substantive options emerging over and above those that companies have solicited from discussion with other existing and new suppliers. If these new options make a material difference to the draft plan this might mean the consultation process would have to be restarted. We believe this risk can be minimised by careful use of scenario based optioneering and alternative proposals in plans which would be consulted upon.

I hope these comments are helpful. Please contact Chris Offer our Regulation Director or Mike Pocock our Director of Asset Strategy if we can be of further assistance.

Yours faithfully

A handwritten signature in blue ink, appearing to read "M. Pocock", written over a red horizontal line.

Mike Pocock
Director of Asset Strategy