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Market information consultation response
Ofwat, Centre City Tower
7 Hill Street
Birmingham
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06 July 2017

Dear Sirs,

Bioresources and water resources market information consultation

Anglian Water welcomes the opportunity to respond to this consultation on the requirement to provide market information for upstream markets in bioresources and water resources. This letter and associated appendices provides our response to the consultation questions, associated guidance and data tables.

We support the development of competitive markets, where they are introduced in a fair and even way and bring long-term benefit to customers. We are supportive of the principle of companies publishing information that will help them and other market participants to identify potential opportunities for economic trades or the provision of services.

For many years we have actively pursued market-based solutions as part of our approach to the particular challenges of water scarcity that we face in our region and which are accentuated by climate change and population growth. We continue to explore opportunities for trading to be part of the solution to ensuring resilient future water resources, having previously funded and undertaken research on this topic.¹ And, on bioresources, we took the lead in publishing a set of market information in March 2017 to support the development of our PR19 sludge strategies. We have also

¹ [Research into water allocation through effective water trading, Markets, water shares and drought: Lessons from Australia](#) and [Trading Theory for Practice](#).



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an AWG Company

recently identified bilateral trading opportunities with other sewerage companies.

We strongly feel that the purpose of the data tables should be to initiate discussions between market participants, not to provide the data on which firm trading offers will be made.

Following the logic of this, the requirements should therefore be sufficiently broad in scope, detailed, current and accurate to enable the initiation of these conversations - but no more so.

We believe that this is the core principle that should guide decisions on the detail of the information requirements, the frequency of publication and the assurance requirements. Similarly, Ofwat should ensure that its proposals are clearly aligned with the principles of better regulation.

We agree that as markets develop, the information requirements of parties may need to change. We note that the reporting requirements for bioresources have improved significantly since the October 2016 submission, demonstrating the benefits of iterative improvement. We support Ofwat's commitment to ongoing review of the requirements.

We trust these comments will help develop the final version of the guidance and reporting requirements. Please do not hesitate to get in contact if you wish to explore anything further. Arun Pontin (aPontin@anglianwater.co.uk 07973 965537) would be a good point of contact in the first instance.

Yours faithfully,



Alex Plant
Regulation Director

Bioresources and water resources market information consultation

Question 1: Do you consider that the information we propose requiring companies to publish is helpful and will provide sufficient transparency in the (i) bioresources market and (ii) water resources, demand management and leakage services market to support their operation and development? If not, please give reasons.

We support the development of competitive markets, where they are introduced in a fair and even way and bring long-term benefit to customers. We support the principle of companies publishing information that will help them and other market participants to identify potential opportunities for economic trades or the provision of services.

For many years we have actively pursued market-based approaches to the particular challenges of water scarcity that we face in our region. We continue to explore opportunities for trading to be part of the solution to ensuring resilient future water resources, having previously funded and undertaken research on this topic. And, on bioresources, we took the lead in publishing a set of market information in March 2017 to support the development of our PR19 sludge strategies. We have also recently identified bilateral trading opportunities with other sewerage companies.

We strongly feel that the purpose of the data tables should be to initiate discussions between market participants, not to provide the data on which firm trading offers will be made.

Following this logic the requirements should therefore be sufficiently broad in scope, detailed, current and accurate to enable the initiation of these conversations - but no more so.

We believe that this is the core principle that should guide decisions on the detail of the information requirements, the frequency of publication and the assurance requirements. Similarly, Ofwat should ensure that its proposals are clearly aligned with the principles of better regulation.

For water resources, we are keen to encourage parties to come forward with potential sources of water, and are concerned that the provision of information on the types of constraints we face could be misleading. We would not want a potential bidder to be discouraged from offering water because of an existing constraint, such as limited current capacity at a water treatment works (WTW). With this in mind, we question whether the

value brought by some of the requirements in table 1 warrant the additional costs of reporting and assurance for companies.

We provide detailed comments on the reporting requirements for bioresources in Appendix 1 and water resources, demand management and leakage services in Appendix 2.

Question 2: Is there any additional information which it would be helpful if companies published for (i) bioresources and (ii) water resources (within the remit of Condition M1)? Please explain why.

We think the information proposed for reporting is more than sufficient to enable the initiation of discussions around potential market opportunities and propose no further information requirements.

Question 3: Do you agree with the proposed scope of the information on market activity to be provided to us for monitoring the development of the bioresources market? If not, please give reasons.

Appendix 1 contains detailed comments on the proposed requirements for the six bioresources tables. Our general comments are provided below.

We note that the tables are more detailed and numerous than the drafts that were discussed with the sludge working group during 2016. Consistent with our comment in response to question one about the purpose of these tables, we question whether the value brought by this additional detail warrants the additional costs of reporting and assurance for companies. The extra detail might even be counter-productive if the extent of data hinders market participants from identifying the potential viable opportunities among all the non-viable ones. In our detailed comments in Appendix 1, we make some suggestions to reduce some of the complexity.

Question 4: Do you consider that the publication of any of the information that we propose water companies publish would (i) be contrary to the interests of national security or (ii) seriously and prejudicially affect the interests of any person? If so, please identify the information concerned and give reasons.

We have considered the reporting requirements against our safety and national security obligations. Generally, the information relating to our specific sites is either already in the public domain (e.g. anaerobic digestion sites) or anonymised (e.g. WTWs). As long as this remains the case, we are content to publish this information.

We are aware that the information we will provide to Ofwat in bioresources table 6 is commercially sensitive and rely on the security of Ofwat's

systems, people and processes to ensure that it does not enter the public domain. We presume that these commercial sensitivity considerations would enable Ofwat to refuse requests for release of the information under Freedom of Information or Environmental Information Regulations.

Question 5: Do you have any comments on the proposed timing of the publication and the frequency that the information should be updated for both the bioresources market and water resources market?

Bioresources

The consultation proposes that information is published at least annually. Given our views on the purpose of these tables, the rate of change in sludge production and treatment data and the cost of updating the tables, we think it would be disproportionate to require updates more than once per year.

The consultation documents are inconsistent in their proposals for the timing of publication, proposing that companies publish information (or, for Table 6, provide information to Ofwat) with their APRs and – elsewhere – by 31 July. Subject to the outcome of the current consultation on the Regulatory Accounting Guidelines, we expect the scope of the APR to be substantially enlarged from 2017-18. In view of this and the efficiency obtained from not unduly concentrating the workload for companies associated with reporting, we think that the deadline for publication should be 31 July.

We foresee no difficulties in publishing a version of the tables for 2016-17 on a voluntary basis in Autumn 2017. We would hope that any issues that arise as we do so and which we have not identified in our response to this consultation might be considered. We note that the reporting requirements for the sludge lines of the 2017 Information Request have improved considerably in comparison with those used for the 2016 October Submission, illustrating the benefits that can be derived from iterative improvement. High quality reporting requirements are important to ensure consistent reporting across the sector.

Water resources

We support the proposed timing of publication of the information. There will be a strong link between the market information and our water resource management plan (WRMP). Preparing and updating the WRMP is a significant undertaking - we welcome the one-month lag between publication of the WRMP and the market information.

Given our views on the purpose of these tables, the rate of change and the cost of updating the tables, we think it would be disproportionate to require updates more than once per year or in years where we are not updating our WRMP.

Additional comments

We agree that as markets develop, the information requirements may need to change and we support Ofwat's commitment to ongoing review of the requirements. We believe this review should consider the extent to which the data is used. If usage of the data is low, it may not be proportionate or consistent with regulatory best practice for companies to continue gathering data in such granularity. In this scenario, other data sources may be sufficient (e.g. the water resource management plan data tables).

We believe the process for changing the information requirements could be further developed and clarified in the guidance. Licence condition M1 and the guidance are clear that consultation is required to change the reporting requirements. But the relevant section in the water resources guidance document is not explicit that changes would be consulted on. We believe this should be explicitly stated to avoid confusion. We also believe both sets of guidance would benefit from an indication of expected consultation periods and an indication of the notice period between any changes and the deadline for company reporting.

APPENDIX 1: Detailed comments on the bioresources data tables

We believe it would be helpful to label or number the table columns. In our comments below, we have used the Excel column letters from the consultation versions. Likewise, it will help if the table numbers used in the consultation documents are also used in the Excel files.

Tonnes is a unit of mass rather than volume so we propose 'volume' is replaced with 'mass'. This applies to Table 1 column H, Table 3 column H, Table 4 column H and various lines in Table 6.

We may wish to provide users with some general commentary in association with any or all of the tables - for example, in respect to existing contracts. The reporting template should provide a space for this.

We note there is overlap between information provided in these tables and data recorded in the Information Request tables which are proposed to become part of the Annual Performance Report (APR) from 2017-18. It would be helpful if the definitions identified reconciliation rules - for example, if the sum of the figures in a column of one of these tables should match a figure in a table of the APR.

Table 1 Sludge production sites (p.e. >2,000)

Consistent with our comments on the use of this data, we think Water Recycling Centres (WRCs) serving between 2,000 and 10,000 p.e. should be reported in Table 3 rather than Table 1. We have 108 WRCs serving over 10,000 p.e., which between them produce 83% of our sludge. If we include WRCs serving more than 2,000 p.e. the number of lines in Table 1 will nearly treble to 314.

Column H (volume of sludge produced per year) - some of our WRCs receive sludge from other WRCs and dewater them to reduce the costs of onward transport to Sludge Treatment Centres (STCs). To avoid double counting, the reporting requirements should specify that only the indigenous sludge attributable to these WRCs is recorded here and not the imported sludge.

Column L (typical volatile solids content) – we are pleased that this is not a mandatory column as we do not measure this and would report a default textbook estimate of 75% for all WRCs.

Column M (WwTW classification) – to aid searchability, it might be better to have a separate tickable column for each classification type rather than a single column with a range of different code combinations.

Section E (contracts, columns Z to AB) – these are not easy to complete as we have a number of contracts that are region-wide rather than site-specific. As such, any one site may be covered frequently or rarely. We would prefer to provide general commentary in this area.

Alternatively, we question whether this section could be removed given the information on contracts provided in Table 5.

Table 2 WwTW classification

In completing this column for our tables earlier in the year, we found it helpful to add some notes for further clarification. We invite Ofwat to review these additional notes in our published tables and consider adding them to the classification definitions to help ensure a consistent approach to classification across the sector.

Table 3 Smaller WwTWs (<2,000 p.e.)

To include all WRCs up to 2,000 p.e., this table for us would include 825 rows. Our comment under Table 1 about contracts (Section C in Table 3) also applies here.

Table 4 Sludge treatment centres

Column O (type of site) – we think the terms here should be defined.

These are our proposed definitions:

- Thickening site – reduces the water content of indigenous sludge only to c. 6/7% and certainly less than the 10%, which would make it a sludge activity.
- Dewatering site – reduces the water content of indigenous and imported sludge to over 10%, producing sludge cake.
- Sludge treatment centre – produces a treated biosolids product of a sufficient quality for final return to the environment.

We note that under our definition, thickening is a Network Plus activity, as defined in RAG 4.06, so should be recorded in Tables 1 and 3 rather than Table 4. We do not regard thickening sites as STCs.

Column U (compliance with BAS) - we welcome the introduction of this column as a means of raising standards in the organic waste market. We

note that 'not applicable' should be an option for any STCs reporting the production of untreated sludge in column U.

Section F (contracts, columns AB to AD) – our previous comments under Table 1 Section E apply here also. Contractual information does not lend itself to a tabular format and a narrative option would be more appropriate. Also in this section, we question whether column AB should be 'biosolids haulage' rather than 'recycling' and column AC should be 'recycling / disposal'.

Table 5 Contract information

All of our contracts are region-wide rather than site-specific and we think this table provides a better place to explain them than in sections E and F respectively of Tables 1 and 4.

We understand this table is to report contracts relating to sludge transport, treatment, haulage and recycling. We have a range of other contracts in our sludge business not related to market development, such as for supply of chemicals and fleet and plant maintenance. These services have been subject to competition for many years and tendered in accordance with EU procurement legislation. We presume these latter types of contract are not to be recorded in this table, in which case it would be helpful if the definition specified those contracts that were within the scope of the table.

Table 6 bidding activity

Our comments above about the definition of a contract apply to this table too.

Block E (sludge transported) – lines 2 and 3 ask companies to report volumes transported but the Information Request uses a metric of 'work done', which combines both mass and distance. We think this is a superior measure.

Block F (sludge recycled or disposed) – contracts could potentially cover biosolids haulage separately from recycling / disposal so we suggest that additional lines are needed to provide for this.

We have some comments on the areas proposed for inclusion in the narrative disclosure on market activity:

- How market share is likely to change over the next reporting period – any comment we make here can only be speculative and does not necessarily carry greater weight than that provided by any other

market participant. As such it is unlikely any third party assurer will provide assurance over it.

- Provide details of the bid assessment success criteria, summarise reasons not to award a contract and stimulate interest from third parties – procurement law already requires us to do all these things and report on them.

In view of these comments, we suggest that the proposed scope of the narrative should be reduced. We also believe that the assurance requirements should be proportionate and reflect that some of the reporting is forecasting market based activity, which can be uncertain.

APPENDIX 2: Detailed comments on the water resources, demand management and leakage services data tables

We believe it would be helpful to label or number the table columns. In our comments below, we have used the Excel column letters from the consultation versions.

Table 1 Key market information

Rows 14, 15 and 16 (Levels of Service (LoS)) – we note that the reporting units are '1 in X', but this could be inconsistent with UKWIR Risk Based Guidance for WRMP 2019 in certain circumstances. According to the Guidance, risk composition 1 or 2 should be described as 1 in X, but risk composition 3 should be described as a percentage (page 28 UKWIR Report Ref No 16/WR/02/11). We believe the user should be able to select the unit for this reporting requirement depending on the relevant composition level.

Row 17 (summary key cause of supply constraint) – we know supply constraints at a water treatment work (WTW) level. An element of judgement and generalisation would be required to comment on this at a water resource zone (WRZ) level. This could lead to inconsistent reporting between companies. We suggest that further guidance could ensure companies accurately and consistently report this information on a WRZ level.

Rows 19 and 20 (first year of zonal deficit) – the proposed AMP7 Water Industry National Environment Programme includes schemes to address our Water Framework Directive (WFD) obligations to ensure "no-deterioration". There is significant uncertainty regarding the scale of sustainability reductions that could be required in AMP8, and this will not be resolved until we have completed investigations and options appraisal schemes in AMP7.

The Environment Agency's (EA) Water Resources Planning Guideline (Sustainable Abstraction Supplementary Information) classifies all of the potential sustainability reductions driven by WFD no-deterioration as "purple", meaning that they should not be included baseline supply demand balance. However, we expect that the impact of WFD "no-deterioration" could be significant, potentially resulting in a large reduction in Water Available for Use, increasing security of supply risk and driving substantial investment to prevent unplanned interruptions to supply.

Our expectation is that as decisions are made about sustainability reductions and any related investments, our WRMP and market information would be updated. However if this is not the case and Ofwat expects sustainability reductions to be included in the baseline forecast for reporting

market information we suggest this be clarified in the reporting guidance. Differences between the market information reporting and WRMP's could cause confusion for users of the data and add to the regulatory burden of reporting.

Row 21 (other planning considerations and constraints) – we understand this requirement to be regarding constraints to our deployable output. While we maintain detailed data on our deployable output, our expectation is that this commentary will be at a high level. We would argue against detailed reporting on this area as:

- there could be a significant volume of data,
- the data comes from a series of complicated sources, such as our abstraction licences, treatment works data and water quality data, and
- maintaining accurate data publically could represent a significant admin burden.

As noted in our main response, we think the purpose of the tables should be to initiate discussions between market participants. High-level commentary on constraints is sufficient to achieve this. Detailed reporting may not be particularly useful to other parties given its volume and complexity.

Row 22 (treatment works details) – we have considered the requirements against the Security and Emergency Measures Direction. We are content to publish this information as long as the information remains anonymised.

Row 17, 21 and 22 – we are keen to encourage parties to come forward with potential sources of water, and are concerned that the provision of this information could be misleading. We would not want a potential bidder to be discouraged from offering water because of an existing constraint, such as limited current capacity at a WTWs. Increasing capacity at WTWs or resolving other constraints could be a cost faced regardless of water source (i.e. we would face the same costs if we sourced the water ourselves). When costing options on the feasible options list, we include the costs of resolving constraints. We would also consider these costs when assessing a potential third party option, this ensuring a level playing field.

We question whether the value brought by the requirements of rows 17, 21 and 22 warrant the additional costs of reporting and assurance for companies.

Table 2 Baseline supply forecast

Row 9 (deployable output) – as noted in our comments on rows 19 and 20 for table 1, there could be inconsistency between the reporting requirements and the EA’s guidance. The EA’s guidance is that AMP8 sustainability reductions should be considered as part of scenario testing, rather than be included in the baseline supply demand balance. Our reading of this row of the requirements is that Ofwat expects sustainability reductions to be included in the baseline forecast for reporting market information.

Differences between the market information reporting and WRMPs could cause confusion for users of the data and add to the regulatory burden of reporting. We suggest that this row be reconsidered in light of the EA’s guidance.

Table 3 Baseline demand forecast

Rows 11, 12 and 13 (per capita consumption) – we believe per property consumption (PPC) may be a better unit for this reporting than per capita consumption (PCC). PPC is easier to measure, because companies do not have to make assumptions about occupancy rates. Additionally we already calculate PPC values, as they are included in the water balance calculation that we submit to the EA as part of the WRMP Annual Review. It would also align to our existing outcome delivery incentive (ODI) on PPC.

Table 4 Baseline supply demand balance

Row 11 (Supply demand balance) – we believe the unit for this row should be MI/d.

Table 6 Final plan demand forecast

Rows 11, 12 and 13 (per capita consumption) – our comments made on these rows in table 3 also apply here.