



Market Information consultation
Ofwat,
Centre City Tower
7 Hill Street
Birmingham B5 4UA

SSE Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

By email to: water2020@ofwat.gsi.gov.uk

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Dear Water 2020 team,

Bioresources and water resources market information consultation

SSE has a subsidiary company - SSE Water Limited (SSE Water) - that participates in the water markets under the New Appointments and Variations (NAV) framework and is sometimes known as a “new appointee” or NAV company. We support Ofwat’s work to develop the ‘upstream’ markets of bioresources and water resources and are particularly interested in the water resources market, as NAV companies need to procure water resources in order to provide services to the end users connected to their competitive local infrastructure developments.

We have two main points to make in response to the matters raised in the consultation and cover these in response to one of the consultation questions, attached as an appendix to this letter. In brief, our points are that the information to be published by incumbents to support the water resources market should include transportation charges and that the bulk charges made by incumbents to NAV companies should be made on a ‘wholesale’ rather than ‘retail’ basis.

I hope these comments are helpful and we would be happy to discuss the potential for NAV participation in the water resource markets further. As with any developing market arrangements, we believe it will be useful to establish the likely roles and interactions of all relevant players at the outset. In particular, we would like to see the position of NAV companies, as potential demand side purchasers of available water resources, explicitly considered in this work going forward.

Yours sincerely

Aileen Boyd
Regulation Manager

Consultation Questions

Q1. 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.

Q2. 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 have raised in previous consultation responses the matter of visibility of transportation and access charges as a pre-requisite for encouraging water trading. However, we have not observed any comment on this matter in the current consultation.

We consider that NAV companies could be significant participants on the demand side in the market for water resources, as this framework could be used to establish economic sources of treated water for NAV areas as an alternative to supply from the relevant incumbent. SSE Water has already been able to source alternative water for one of its appointed areas, where the alternative supplier had a contiguous boundary with our NAV site but we could see this extending to more geographically distant alternative sources, if a regulated access pricing framework was in place, as water could then be transported across the incumbent network from other water resource providers. This would help towards increasing competitive pressures and establishing a more economic system of water supply overall.

Other potential purchasers of water resources would also need to understand the costs of receiving the traded water at their required off-take point from the incumbent distribution network. As this element of costs is a fundamental part of the economics of purchasing water in bulk, we propose that the incumbent water companies should be required to produce information for the market on this topic. This should be developed, in our view, to reflect the regulated 'use of system' charges that are transparently available in the energy markets and support the trading of the energy commodity in those markets.

We have one further comment on the topic of charging and this concerns the bulk supply charges made by incumbents to NAV companies. In the context of all the preparatory work that has been carried out to establish the difference between 'wholesale' and 'retail' costs of the incumbent water companies prior to the opening of the non household retail market, many water charges published by the incumbents are divided into 'wholesale' and 'retail' components. As a NAV company, SSE Water expects to be charged by the incumbents on a 'wholesale' basis as that is the nature of the trade between the two parties. However, we have experienced the situation where some incumbents consider it appropriate to charge NAV companies for water on the higher 'retail' basis and discussions are ongoing with the companies concerned. It would be useful if Ofwat could clarify in statements made about market information (or elsewhere) that incumbents should take a 'wholesale' starting point in their discussions on water resource pricing with potential trading partners.

Q3. 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.

Q4. 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.

Q5. 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?