



Market information consultation response

Strategy & Regulation

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6 July 2017

Dear Sir / Madam

BIORESOURCES AND WATER RESOURCES MARKET INFORMATION CONSULTATION

Thank you for consulting with us on your proposals about the market information that companies should publish for both bioresources and water resources ("the consultation"). We provide detailed responses to the questions in the consultation in the Appendix. For ease of reference, we provide a summary below.

1. Overall

We agree with the intention to stimulate markets in water resources and bioresources, and support the proportionate approach to the information that should be published. Greater visibility of and access to existing information will help to clarify where the greatest and least potential exists for entry. For water resources, Thames Water already expends significant effort in seeking third party input, with moderate success, and expects that the market information provisions will reveal further opportunities for trade.

We also suggest some possible enhancements to the regulatory framework that could support markets as they develop.

2. Water resources information

We are broadly comfortable with the water resources information we are required to publish. Most of this is already in the public domain, although some details (e.g. source of supply constraint) may only be available at a high level, and we will publish what is available.

However, requiring companies to publish details of maximum design capacity for treatment works could be problematic. This is because our water treatment works have a varying capability that is dependent upon factors such as seasonal raw water quality, system constraints, forecast demands and the effects of climate change. We would not want the publication of this information to lead new entrants to overestimate the spare capacity available at our water treatment works and therefore expend effort preparing infeasible offers of raw water. As an alternative, we suggest that publishing details of spare treatment capacity would be helpful, and we suggest this would be sufficient to stimulate the market.

3. Bioresources information

We agree that Ofwat needs to be able to monitor the development of the market. Information provided to it by companies about their trades with third parties will be valuable in supporting that aim. Some of the data Ofwat is asking companies to provide has a degree of commercial sensitivity, and by definition involves our trading partners. We encourage Ofwat to give further thought to how it may reduce the risk that commercial information is inadvertently released under either the Freedom of Information Act 2000 ("FOIA") or the Environmental Information Regulations ("EIR").

More generally, we believe there is a balance to be struck between publishing information that can help the market grow, and that which can hinder it. In particular, while certain data about sludge treatment centre ("STC") product, and data about contracts, could help entrants to target their resources most effectively, this information should be specified carefully so that market innovation or operation is not constrained or distorted.

We would be pleased to discuss our comments further with you, if you would find that helpful. In the first instance, please do not hesitate to contact Phillip Dixon on 07747 646 860 or write to him at Phillip.Dixon@thameswater.co.uk.

Yours faithfully

A handwritten signature in black ink, appearing to read "Nick Fincham". The signature is written in a cursive, slightly slanted style.

Nick Fincham
Director of Strategy & Regulation

APPENDIX – Consultation questions and our responses

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.

We support the publication of information that will help the third party bioresources and water resources markets to develop. We agree that greater visibility of and access to existing information would help the operation of the markets, enabling entrants to identify where entry is more or less likely to succeed.

The bilateral and bidding markets for water resources are structured differently. In the bilateral market, non-household retailers will drive entrant and incumbent wholesalers to compete to deliver best value supply side options to retailers and their customers. In the bidding market, retailers are absent, but entrants can offer both demand and supply side solutions. Therefore, these markets are likely to develop in different ways, and we will see a consequent evolution in the scope and scale of information published. We feel that the following enhancements to the regulatory framework, to improve effectiveness in both markets, for both entrants and incumbents are worthy of detailed consideration.

- Stakeholders may require that controls are put in place to ensure that entrants to the treated water market are able to meet the DWI water quality requirements. An early-stage review of the arrangements for licensing new entrants may reduce stakeholders' concerns.
- The Environment Agency may be required to determine that entrants' water resources comply with the Water Framework Directive. It may also need to clarify its position on sustainability reductions and the effects on resource availability. Wider consultation between entrants and the EA may be worthwhile.
- Publishing information about treatment and transport contracts, and data about STCs, could improve the efficient working of the market by enabling entrants to concentrate their resources most effectively. However, the format of this information should be carefully developed so that market innovation or operation is not constrained or distorted.
- Publishing maximum design capacity for water treatment works (Table 1) could be problematic and would be of limited use to new entrants. This is because our water treatment works have a varying capability that is dependent upon factors such as seasonal raw water quality differences, system constraints, forecast demands and the effects of climate change. Publishing this information could lead new entrants to overestimate the spare capacity available at our water treatment works and therefore expend effort preparing unfeasible offers. Instead, publishing details of spare capacity would be both sufficient and appropriate to support market entry.

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 think the proposals as they stand are broadly sufficient and proportionate. For large STW, it could be worthwhile stating whether the sludge is separately stored or transported as primary, surplus (waste) activated or blended raw sludge.

We have some questions of clarification about the bioresources data, as follows. We would ask Ofwat to confirm or correct our understanding, or provide additional guidance:

- We would prefer to use the O/S Grid Reference approach to site location, which is what we currently use, rather than longitude / latitude.
- For small sites the table requests that sites that are discharged into the inlet of another STW should be omitted (as this is a Network plus activity). How should companies deal with sites that sometimes discharge into the STW inlet and other times directly into the sludge stream?
- For small sites and for STCs, the data tables refer to the volume of sludge produced, but request those volumes in TDS (a measure of dry mass). Can you confirm that you wish companies to publish volume data measured in wet tonnes / m³, as well as % of solids?

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.

The scope of the information Ofwat proposes that companies should submit to enable it to monitor the development of the bioresources market is sufficient while the market is emerging. It would be sensible to review the scope over time as the market develops.

Some of the data has a degree of commercial sensitivity. For example, contract prices are not requested but could be inferred from the total revenue and volume figures, if a company has only one or two contracts.

We agree that Ofwat should monitor the development of the market, and that asking companies to provide information to it would help it do that. We suggest Ofwat gives further thought to avoiding the inadvertent release of commercial information through FOIA or EIR requests.

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.

In the round, we do not think the publication of the proposed information would meet either of these tests. However, we note the points we have made in the cover letter and in response to

Q3 about the potential release of commercially-sensitive information under FOIA or EIR. We also note the point we make in the cover letter and in response to Q1 about publishing details of maximum treatment design capacity. Details of maximum treatment design capacity do not appear to be necessary for an entrant to inform its business strategy (unlike spare capacity, which we agree would be helpful), and we suggest companies should not be required to publish this.

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?

We agree that aligning this data with the Annual Return is logical, as some of the data is the same and we would be keen to avoid unnecessary duplication of effort.

Thames Water Utilities Limited
July 2017