

# Information notice

IN 17/04

ofwat

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

## Preparing for wholesale markets

This information notice explains how we expect the largest 17 regulated water companies to support the development of markets in bioresources and water resources. We provide:

- an overview of our consultation on the market information we will ask companies to publish; and
- our expectations for the measurement and reporting of sludge volumes.

### Market information

The [May 2016 document](#) set out our decision to promote markets in bioresources and water resources. In it we concluded that a lack of information was a major barrier to these markets developing. Since May 2016 we have consulted on changing company licences to include a requirement for companies to publish or provide market information to us. The new licence condition M1, came into force on 15 April, 2017. Condition M1 provides that the detail of the information that companies will be required to provide or publish will be set out in guidance to be provided by Ofwat. We are now publishing [a consultation document](#) with draft guidance for bioresources market information and draft guidance for water resources market information.

For bioresources, we are asking companies to publish information to enable potential market participants, including water companies, to identify opportunities to supply services in the treatment, transportation and disposal of bioresources. We are also asking companies to provide certain market information to us (rather than publish) to enable us to monitor how the bioresource market develops. For water resources, we are asking companies to publish information to support the development and operation of markets in water resources, demand management and leakage services.

#### Market information timetable

20 April 2017 – Consultation on draft market information guidelines

06 July 2017 – Consultation on draft market information guidelines closes.

October 2017 – Ofwat publishes final market information guidelines

Autumn 2017 – Companies voluntarily publish their 2016-17 bioresources market information.

January/February 2018 - Companies wholly or mainly in England publish their water resources information for the first time in line with their draft water resource management plan.

March 2018 – Companies wholly or mainly in Wales publish their water resources information for the first time in line with their draft water resource management plan.

July 2018 – Companies report their 2017-18 bioresources information.

## Measuring bioresources volumes

To promote the development of bioresources markets we decided to introduce an average revenue control as the most appropriate means of regulatory protection during the early development phase of bioresources markets.

We will require companies to measure sludge production according to the volume definition below from 2020 onwards, in order for the average revenue control to be based on an accurate and consistent understanding of sludge volumes.

## Our definition of the bioresources volume measure

Our definition of sludge volume is as follows:

Sludge production in tonnes dry solids for the PR19 average revenue control:

- is a measure of untreated sludge (primary, secondary and tertiary) produced by in-area wastewater treatment processes in a year;
- does not include the grit and screenings removed through preliminary wastewater treatment processes; and
- is measured preferably at the boundary between network plus and bioresources as defined in RAG 4.06, or if not at the point of treatment. There should be continuous measurement via instrumentation rather than by composite or spot sampling.

In preparation for the PR19 bioresources price controls we consider that companies should begin measuring sludge volumes well before 2020. This will enable companies to provide robust forecast volumes in their 2019 price review (PR19) business plans. It will be important for us to understand the basis of forecast volumes and the confidence companies have in their own forecasts. We will prefer forecasts based on measurement, rather than estimation or calculation.

We are aware that many companies are already measuring sludge volumes using appropriate methods and where necessary have implemented programmes to install measuring equipment. We do not expect that these programmes will have significant

incremental costs and accurate measurement is part of operating an efficient business.

Measurement devices for tonnes of dry solids should be considered to be bioresources assets and the costs associated with installing, maintaining and calibrating them should be reported as bioresources costs.

## Background to measure of tonnes of dry solids

In response to the [May 2016 Water 2020 decision document](#) we heard from the ten water and sewerage companies and the Environment Agency that their preferred volume measure for the separate binding bioresources price control is “tonnes of dry solids” (TDS).

We developed our definition of TDS following extensive engagement with incumbent

companies, potential market participants and wider stakeholders.

Our objective is to have a measure of bioresources volume that:

- is meaningful for the market, is “commodity” based;
- incentivises appropriate behaviour by both producers and market entrants;
- is consistent over time;
- is consistent between companies;
- is not disproportionately costly to measure and assure; and
- is clear

## Enquiries

If you have any enquiries about this information notice, please send them to [Water2020@ofwat.gsi.gov.uk](mailto:Water2020@ofwat.gsi.gov.uk)

## More information

[Water 2020: our regulatory approach for water and wastewater services in England and Wales, May 2016](#)

[Licence change consultation, November 2016](#)

[Market information consultation, April 2017](#)

[Draft water resources market information guidance, April 2017](#)

[Draft bioresources market information guidance, April 2017](#)

Further information on [sludge working group and form of control workshop](#) discussions

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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