

CONSULTATION ON CHANGES TO THE TRADING & PROCUREMENT CODE GUIDANCE

NORTHUMBRIAN WATER GROUP'S RESPONSE

We welcome Ofwat's statement that the additions to the guidance will only apply to new trades that start on or after 1 April 2020 and are claimed at PR24.

Our current trading and procurement code meets all the requirements of the existing legislation and is particularly relevant for our intention to make an incentive claim for a large Thames export trade that operated over 2015-20.

Q1: Do you support the new requirements or principles we have set out in section 2.2?

Q2: Do you support our proposed approach to approving new codes, as set out in section 2.3?

Q3: Do you support our proposed approach to updating approved codes, as set out in section 2.4?

All four additions to the code are reasonable and we support them.

We are happy to amend the code to include the additions that will apply for trades from 1st April 2020 onwards.

Q4: Do you have any other comments on the draft guidance document published alongside this consultation?

We have one request for clarification. The water trading model published by Ofwat splits the 50% of NPV of economic profit into two parts – Export incentive payment to be paid **at PR19** and Balance of export payment to be paid **after PR19**.

The first additional principle in the consultation states: ***Our expectation is that companies should claim for new trades that operated in 2015-20 at PR19. Only in exceptional circumstances would a trade be eligible to be claimed at PR24 which was operating during 2015-20***

We presume this principle will not prevent companies from claiming the **balance** of the incentive earned over 2015-20 in PR24, as per the water trading model. We suggest there might need to be a distinction made between the **2015-20 claim**, which will be submitted in full in PR19 and the **payment**, which will, per the trading model, be **spread** over PR19 and PR24.

We have attached to our email an illustrative trading model with the incentives shown as £6.3m and £4.1m for PR19 and PR24 respectively (Export incentive lines 56 & 60)

Northumbrian Water

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