



Bilateral markets call for information

Ofwat

21 Bloomsbury Street

London WC1B 3HF.

6th September 2019

Dear Ofwat

RE: Bilateral markets – Call for information

Thank you for the opportunity to respond to the above call for information.

Affinity Water welcomes Ofwat's proposal to extend the bilateral market. We believe water trading of all forms are an essential element to meeting the future water resource needs of our supply region, which is an area of serious water stress.

Our draft final WMRP includes a number of third party trading options including the Grand Union Canal transfer, which we are developing with Canal & River Trust. We produced our draft final WRMP using the principles underpinning the Bid Assessment Framework that we published as part of our PR19 submissions. We anticipate that our Bid Assessment Framework will encourage third party solutions in water supply, demand management and leakage services by providing a transparent framework for third parties to engage with us.

Finally, we note that section 66M of the Water Industry Act 1991, which was inserted by the Water Act 2014, provides additional powers to underpin a market in raw water resource and would welcome an update on Defra's and Ofwat's proposals with regard to commencement of this section. In answer to your specific questions, we attach an Annex.

Please do contact me if you have any queries regarding our response or if we can be of any further assistance.

Yours faithfully



Tim Charlesworth

Head of Economic Regulation, Affinity Water

Annex – responses to specific questions

Question 1

A number of stakeholders have previously expressed interest in supplying water resources, either through the bidding market or in a future bilateral market. There are also a large number of WSSL licensees.¹⁴ We are interested in stakeholders' views on:

- a) Whether, in principle, they would be interested in selling water resources via means of a bilateral market;

As a company in a water stressed area, this seems like an opportunity that is unlikely to arise for us, but we have no objection to the idea.

- b) Whether, in principle, they would be interested in purchasing water resources via means of a bilateral market; and

We are always looking for new water resources and would be very happy if we were able to efficiently acquire them through a bilateral trade. We appreciate that the market is not really a mechanism for primary water companies to acquire water.

- c) Whether, in principle, they would be interested in playing some other role (such as providing water treatment services or providing other services) to support a bilateral market.

As an incumbent water company we would be able to provide services such as treatment services in order to support bilateral trade, and we would seek to be supportive of any such arrangements

Question 2

Owners of water resources currently have an existing route to market through the bidding market, while retailers can contract for water resources with the regional water company. We are interested in stakeholders' views on:

- a) the advantages or disadvantages bilateral markets might have compared with the trading arrangements currently available to them;

We don't see the two as mutually exclusive, we see the potential advantages of bilateral markets as additional to existing arrangements.

- b) how bilateral markets could complement or conflict with existing mechanisms available for water trading; and

We are not aware of any reasons for such conflict. We think your paper correctly identifies some regulatory hurdles, but these should be surmountable in most cases

- c) whether they have any preference between the existing arrangements and bilateral markets (if so, why).
None

Question 3

The legal framework allows for a number of consequential changes to regulatory instruments (such as licences and codes) to effectively implement bilateral markets. We welcome views from stakeholders on:

- a) The key policy benefits that they consider need to be captured and the best means of doing this;

We believe that section 4 of the document identifies relevant benefits of trading and the risks and issues that need to be addressed for the successful development of the bilateral market and for future water trading more broadly. One of the policy outcomes for the bilateral market should, in our view, be improved water efficiency as well as those identified in the paper. We believe that work should be undertaken to develop policy in this area..

- b) The key policy risks that need to be mitigated, and the best means of doing this; and

We suggest that the best mechanism for addressing risks and issues would be the development of one code and a standard form of section 66D agreement. These would replace the individual access codes that each water company currently has in place. We believe that this has worked well in the context of the non-household retail market; the existence of one standard code in the form of the Wholesale-Retail Code has made it possible for retailers to interact with all wholesalers on the same basis throughout England

- c) Whether there is a degree of prioritisation to the risks and benefits, and if so what needs to be captured as a priority and what might be better left for a more informed decision once some bilateral trading has become established?

We have identified one further possible barrier to the new entrants to the bilateral market, which is not referred to in the consultation paper, and that Defra and Ofwat may wish to consider. A holder of a wholesale authorisation may need to provide the pipes necessary to convey water from the point of abstraction to point of connection with a water undertaker's supply system. They do not have the statutory powers of entry and works notice powers that water undertakers have under the Water Industry Act 1991, which makes it more costly and time-consuming for a holder of a wholesale authorisation to lay pipes than it would be for an undertaker. We do not have an immediate solution to this to put forward but believe that it merits further consideration.