

Bilateral markets

Call for information

6 September 2019

WONDERFUL ON TAP



Bilateral markets

We very much welcome Ofwat's desire to explore ways to deliver further customer benefits in the form of resilience and lower prices. The recent progress in bilateral markets, evident through the progression of PR19, is an important element in delivering this outcome.

We recognise that bilateral market could supplement these benefits and therefore we welcome Ofwat's desire to develop more evidence to (i) identify and address relevant issues; and (ii) consider the role of bilateral markets in the broader evolution of the development of water resources (eg the National Framework and the cross-regulatory initiative RAPID).

The inputting of water into a distribution system is intuitively a relatively simple concept. However, in practice there are many complexities which need to be identified so that they can be addressed, and ultimately ensure that the market delivers the maximum benefits to consumers.

These complexities ultimately relate to two key areas:

- the quality of the water (raw or treated) – this is both in absolute terms but also in how it compares to water already being treated at a works (as treatment works and processes are designed to treat water of a specific quality, mixing different water thereby requires different processes and/or activities); and
- the underlying impact on network pressure (relating to both the amount of water already in the network and how much is being inputted).

These elements are important because a number of customer outcomes are impacted by how effectively they are managed. In AMP7 a number of our PCs and ODIs are impacted by these measures, for example:

- water quality complaints (which is impacted by both the quality of water being inputted but also pressure management given the potential to stir up sediment in the network);
- CRI – particularly on issues such as turbidity;
- mains bursts; and
- C-MEX.

Even if a small amount of water is inputted into the system, the design of some measures like CRI means that the impact from a small issue is magnified. For example, the CRI score involves a site multiplier – so even if a small amount of water is inputted into the network, the actual score is based on the population of the supply zone. So a single failure would lead to significant penalties (eg one point is close to £2m).

Ultimately the point we are making is that, whilst intuitively a bilateral market is simple concept, there are many technical issues that need to be addressed. Water UK's response to this consultation also helps to frame a number of these challenges. We also believe that further consideration of these issues would be helpful and we'd be more than happy to host or facilitate such sessions.