NORTHUMBRIAN WATER *living water*

RAPID: INCENTIVISING WATER TRADING

May 2021

Background

- Water trading income is captured at each Periodic Review
- To counter this disincentive, Ofwat created the water trading incentive, which shares 50% of the profit

- **However**, companies only find out if they are accepted for the incentive years AFTER the trade has been made. This can be up to 5 years later and the decision is made during a complex and busy review period.
- The conditions for acceptance have a degree of regulatory subjectivity – the trading and procurement code guidance sets out a series of tests for a trade to qualify.
- Whilst 50:50 profit sharing seems reasonable, can we do this in a more reliable and less complex way?

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Options

- Is there a way that the profit share can be relied upon when the trade is being agreed?

‘Pre-qualification’ of trades?

1. Delayed capture of profits in Periodic Review tables - >5 year retention
2. Land disposals reporting – 50:50 shared in retrospect, automatically

(We favour Option 1 as the most practical and transparent)

Discussion points

- What approach to bulk supplies best promotes market-type transactions and efficient trades for customers in the long term?
- Do Appointees need an incentive to export, or is it enough for it just to be a duty that they must comply with?
- How much of an incentive do Appointees require to prepare and negotiate a bulk supply export?
- Does it matter if the incentive is uncertain at the time of the trade?
- Should sharing be time limited or for the whole contract?
- Is a 50:50 share appropriate?