

Anglian Water

TRADING AND PROCUREMENT CODE



THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2015



1. INTRODUCTION

This is the Trading and Procurement Code for Anglian Water Services Limited (“Anglian Water”). It sets out the policies, principles and requirements that will apply when appointed water companies and third parties trade with Anglian Water.

Anglian Water Services Limited

Anglian Water is the appointed water and sewerage undertaker for the east of England region. It is responsible for the public water supply network and sewerage services in this region. It supplies approximately 6 million household and business customers. It is the largest geographically of the 10 appointed water and sewerage companies and its region covers a flat area characterised by low rainfall, with an extensive coastline. Anglian Water is also the owner of Hartlepool Water to which it supplies water services only.

Our main operating region shares a border with Severn Trent Water, Affinity Water Central, Affinity Water East, South Staffordshire Water (Cambridge Water), Essex and Suffolk Water and Thames Water.

Why do we issue a code?

Anglian Water is, in principle, willing to trade with any party that either wishes to take from us, or offer to us a reasonable volume of reliable, (water quality and drought) sustainable and cost effective water resources.

The Water Services Regulation Authority (“Ofwat”) wants to encourage greater water trading between appointed water companies, to benefit customers and promote better, more sustainable use of the natural environment. Although many water companies already trade water, Ofwat has introduced financial incentives to encourage companies to consider more trading.

Ofwat is keen to ensure companies trade only where it is environmentally and economically sensible to do so. It wants to regulate trades to guard against abuses of market power. If a company, therefore, wants to apply for a trade incentive, it needs to have and comply with a Trading and Procurement Code that has been approved by Ofwat. This is an appropriate level of ex-ante regulation, which is more proportionate and less intrusive than Ofwat needing to be involved in approving the individual trades that a company will undertake.

The Ofwat guidance on the requirements and principles to be included in the Trading and Procurement Codes has been considered and incorporated into this document and the latest version of this guidance can be found within the section Useful References.

Using the Code

Anglian Water will keep its Trading and Procurement code up to date and publicly available to view on our website. The approved code will also be available on the Ofwat website.

The Trading and Procurement code should be read in conjunction with the Anglian Water’s Network Access Code, also available on our website or via the link at item number 2 within section 5, Useful References. Where we enter into a trade for the export of water, such trades will be carried out in accordance with the operational and commercial arrangements contained within this Network Access code.

Contact details

Any queries in relation to this Trading and Procurement Code or in relation to water trading generally should be directed to:

Regulation@anglianwater.co.uk

Any queries in relation to Anglian Water's Water Resource Management Plan ("WRMP") should be directed to:

Name: Hannah Stanley-Jones - Head of Water Resources and Strategic Planning

Address: Milton House, Cowley Road, Cambridge, Cambridgeshire CB4 0AP

Tel: 01223 542739

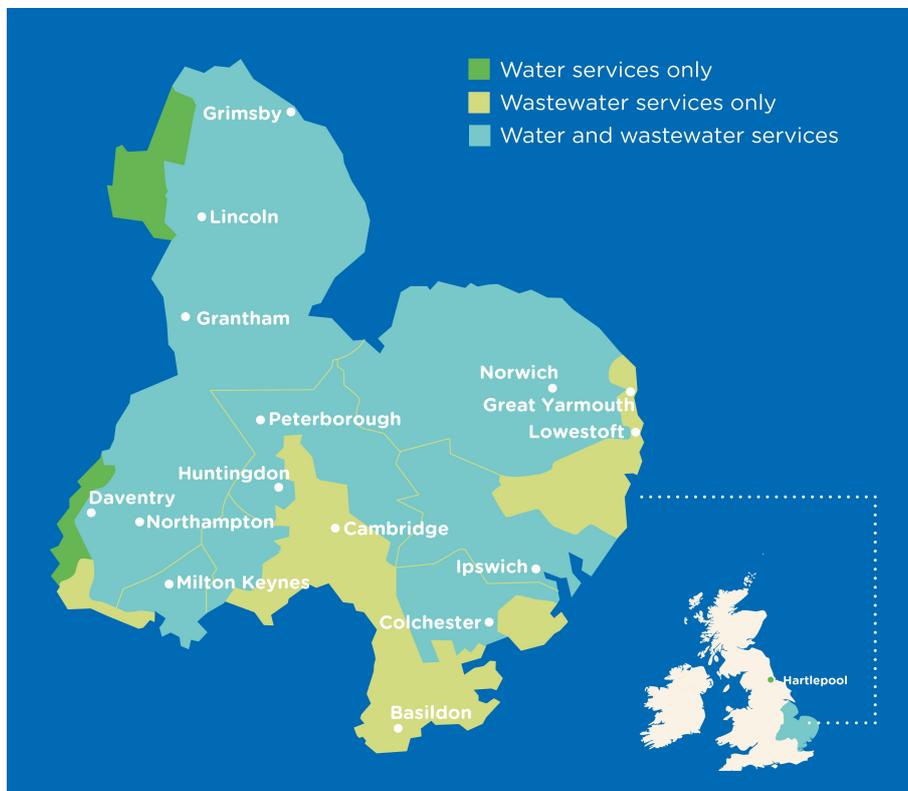
Email: hStanley@anglianwater.co.uk

2. THE CONTEXT FOR WATER TRADING

This section describes the context for water trading including details of Anglian Water's operating region, the regulatory and statutory framework within which it operates and its water resources position. It also sets out the current and future trading arrangements and the challenges facing Anglian Water to keep supplying its customers.

Anglian Water Operating area

Anglian Water is a statutory water and waste water company. Anglian Water is the largest water and wastewater company in England and Wales by geographic area and its operating region shares a border with Severn Trent Water, Affinity Water Central, Affinity Water East, Essex and Suffolk Water, South Staffordshire Water (Cambridge Water) and Thames Water. Its water and waste water supply area is shown in the figure below.



Regulatory framework

Anglian Water provides water and wastewater services to its customers in line with economic, environmental and drinking water quality regulations in accordance with UK and EU Law, including the Water Industry Act 1991, the Competition Act 1998, the European Habitats Directive, the Urban Waste Water Treatment Directive and the Water Framework Directive. These are enforced by our Regulators.

Water Services Regulation Authority (“Ofwat”) is a non ministerial government department, economic regulator for all appointed water and wastewater companies and water-only companies in England and Wales. It sets limits on the charges that these companies can make for their services (“price controls”).

Ofwat sets price controls in a process known as the Price Review (or “PR”). Controls were set in December 2014 (“PR14”) for the period April 2015 to March 2020. Ofwat seeks to encourage water trading between appointed water companies and non-water companies, and it is Ofwat that has developed a financial incentive to facilitate this.

The Environment Agency (“EA”) seeks to maintain and improve the quality of ‘raw’ water in England and Wales, and is responsible for issuing water companies with abstraction licences and discharge consents.

The EA is concerned with the quality of fresh surface and underground water, marine and estuarial waters, and strives to prevent/reduce the threat of water deterioration.

The Drinking Water Inspectorate (“DWI”) regulates all appointed water companies in England and Wales. It acts on behalf of the Secretary of State for the Department of Environment, Food and Rural Affairs (“Defra”) and the National Assembly for Wales.

Its role is to assess the wholesomeness of water supplies to provide independent reassurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers. It also undertakes technical audits of water suppliers to examine all aspects of water quality, treatment and monitoring. In addition, the DWI requires each water supplier to submit quality data on a monthly basis for scrutiny.

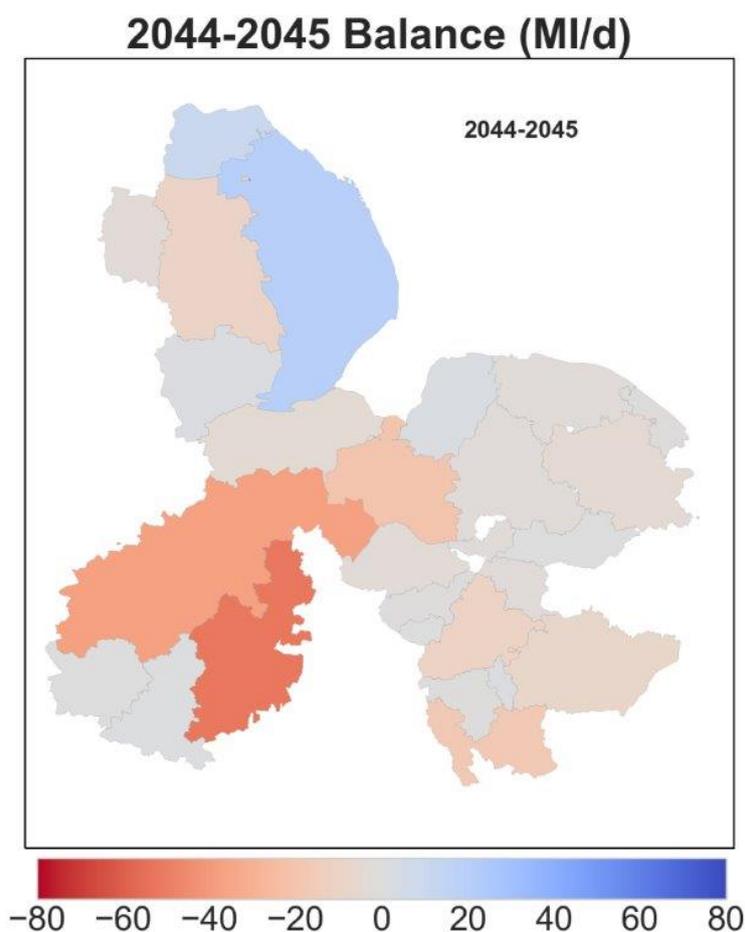
Water Resource Zones

For the purpose of Water Resource planning, Anglian Water divides the company supply area up into 27 Water Resource Zones (“WRZ’s”) together with one non potable zone on the South Humber bank. These zones vary in scale. These WRZ’s are shown in the figure below.



In order to understand if we have sufficient water to meet our customers' needs, Anglian Water compares the forecast demand for water with the forecast supply, taking account of the uncertainties in the forecasts. This assessment produces the "supply demand balances" for each WRZ which show if there is sufficient water to meet customers' needs .

Anglian Water undertakes this comparison as part of its Water Resources Management Plan ("WRMP") every five years to set out what we will need to do, where, and by when, to secure water supplies for today's and tomorrow's customers. (The overall company level supply demand balances across our supply areas, as published in our draft WRMP19). Details of each of our WRZ's are available on our website, along with our Market Information tables.



Anglian Water's Water Resources Management Plan

Anglian Water's draft Water Resources Management Plan for the period 2019 - 2024, intends to make best use of our existing water resources before developing new ones. It aims to do this through an ambitious demand management strategy, that will more than offset growth in demand, and a network of transfers connecting supply systems, allowing us to move water to where it is needed; we keep open the need for additional resource development and trades with neighbouring companies. This will be in addition to Anglian Water's existing trades, as set out below.

Current Position

Anglian Water currently has the following main trades and bulk transfers:

Trading party	AWS WRZ	Direction	Max. average (MI/d)	Max Peak (MI/d)
Severn Trent Water	Ruthamford North	Export	18.00	18.00
Affinity Water	Ruthamford South	Export	91.00	109.00
Affinity Water	South Essex	Export	7.80	7.80
Cambridge Water	Thetford	Import	0.25	0.25
Essex & Suffolk Water	South Essex	Import	3.00	4.50

The challenges and water resource planning

Water resources in the East of England are under increasing pressure from a rapidly growing population, climate change, environmental needs and the risk of drought. Anglian Water has in its draft WRMP set out the ways it will work to maintain an appropriate supply demand balance and increase the region's resilience to severe drought.

Anglian Water believes that opportunities for water trading will play an important part in resolving these challenges that it faces in planning for the future. Anglian Water's draft WRMP allows for flexibility for future trading water with neighbouring companies,.

Anglian Water's draft WRMP can be found here:

[2019 Draft Water Resources Management Plan](#)

Water Resources East ("WRE") and The National Framework

Anglian Water has played a leading role in widening the management of water resources to include other sectors at a regional scale through [WRE](#) and at a national scale through [Water UK's Long Term Planning Framework](#).

The outputs of Anglian Water's draft WRMP are fully aligned with the emerging WRE strategy and incorporates many of the planning assumptions used for the national study.

3. KEY PRINCIPLES OF THE TRADING AND PROCUREMENT CODE

Anglian Water is prepared to trade with both appointed water companies and other third parties in a non-discriminatory, transparent and responsible manner. Such qualifying trades will only be agreed to when there is sufficient evidence to ensure that there will be no detrimental impacts to either our customers or the natural environment. We will also only agree to import trades where it is economically beneficial to do so when taking into account quantity, quality, environmental and other relevant criteria.

Anglian Water's code is aligned with the existing Trading and Procurement codes guidance offered by Ofwat concerning the principles to be included in a code. This was published in May 2018 and is available at:

<https://www.ofwat.gov.uk/publication/trading-and-procurement-codes-guidance-on-requirements-and-principles/>

Anglian Water sets out these principles below and the way Anglian Water will approach proposed water trades with companies and third parties.

Principle 1: Non Discriminatory procurement by Importers

Anglian Water is committed to ensure it considers water trades during the WRMP process and Anglian Water will enter into trade discussions with any third party on a non-discriminatory basis.

Principle 2: Economic purchasing by importers

Anglian Water is committed to agreeing trades only after it has taken into consideration alternative supply and demand schemes as part of the WRMP and where it is economically sound and to the benefit of our customers. A trade will only be considered economically rational if the whole life cost is less than that of comparable alternatives, taking into consideration such factors as: water quality, sustainability and resilience.

Principle 3: Use of competitive processes by importers

Anglian Water will treat all current and prospective trading partners fairly. Trading options will be considered with the same level of scrutiny and rigour as our own internal supply/demand solution options as part of our WRMP.

Anglian Water is willing to enter into trade discussions with any third party on a non-discriminatory basis and we will provide all bidding parties with the same information.

Anglian Water will take all reasonable and appropriate steps to ensure that it complies with such relevant laws and regulations, including the Competition Act 1998. All trades will comply with Anglian Water's Network Access Code.

A structured and competitive process will be applied to select a successful supplier where more than one supplier is bidding to supply water. All details of the process will be shared with Ofwat when applying for any trading incentives.

Principle 4: Contract Durations

Anglian Water when setting contract lengths will select a reasonable duration, appropriate to the nature of the supply and other case specific factors. Where large volumes of water are to be traded, Anglian Water will seek contracts of duration at least 5 years with 5 years notice period to allow both parties sufficient time to make alternative arrangements to alternative sources of water.

Principle 5: Transparency

Anglian Water is committed to an open and transparent process for assessing and operating water trades in line with its selection and appraisal in its WRMP and will maintain this level of transparency. Anglian Water remains committed to working constructively with other stakeholders.

Anglian Water will provide, for all successful trades, an audit report that will examine the processes followed during the procurement process. This will be submitted alongside Anglian Water's business plan for PR19. Anglian Water will also provide updates to all its regulators of any qualifying water trades.

To support the water resources market we have published our market information dataset, available from link below:

<https://www.anglianwater.co.uk/about-us/water-resources-market-information.aspx>

Principle 6: Link to water resources management plans (importers and exporters)

There are no significant differences between Anglian Water's approach to agree water trading arrangements (either imports or exports) and the process and evaluation for selecting options adopted within the WRMP.

Principle 7: Rational economic and environmental flows (importers and exporters)

Anglian Water is committed to agreeing trades only after it has taken into consideration alternative supply and demand schemes as part of the WRMP and where it is economically sound and to the benefit of our customers. Anglian Water is also committed to protecting the natural environment. Any qualifying trades will not compromise Anglian Water's obligations under UK or EU legislation.

Principle 8: No artificial ending of Trades (importers and exporters)

Anglian Water has not entered into any trades prior to 2015 other than those shown in the table above.

Anglian Water will not artificially end and restart any trade to take advantage of any previous or future changes to incentive arrangements.

Principle 9: Correct assessment of costs (exporters)

Anglian Water will assess the costs of a potential trade on the same basis as other options in the WRMP. Economic, environmental and social characteristics will be analysed to ensure that the trade is beneficial to Anglian and its customers.

We will seek to allocate costs accurately and recover those costs relevant to the trade.

Charges will be calculated to recover the wholesale cost of supply, including the maintenance and operation costs of specific infrastructure in place or required to supply the export and an apportionment of the cost of abstraction, storage, treatment (where relevant) and transmission to the supply. Charges will vary over time in relation to the appropriate method of indexation and other relevant changes to the wholesale basis of charging.

Principle 10: Appropriate allocation of incentives between relevant controls

Anglian Water will allocate any incentive payments for each trade between the relevant wholesale controls in accordance with the guidance set out in appendix 5 of the PR19 final methodology. This is available via the link below:

<https://www.ofwat.gov.uk/publication/delivering-water-2020-final-methodology-2019-price-review-appendix-5-water-resources-control/>.

Source to source (type 1) trades will be attributed entirely to the water resources price control as they incur no network plus costs. Whereas source to raw water distribution/storage (type 2) and treated to distribution network (type 3) trades will be attributed between water resources and network plus price controls as they utilise assets from both price controls.

Principle 11: Consistency with the company's bid assessment framework

Anglian Water's trading and procurement code is consistent with its bid assessment framework which will be introduced at PR19.

There is an interim version online at:

https://www.anglianwater.co.uk/_assets/media/bid_assessment_criteria_interim_process.pdf.

Our bid assessment framework has been developed in line with appendix 8 of the PR19 final methodology. This is available at:

<https://www.ofwat.gov.uk/publication/delivering-water-2020-final-methodology-2019-price-review-appendix-8-company-bid-assessment-framework-principles/>

Principle 12: Evidence of assurance process

Anglian Water will adopt the following assurance and governance processes for the agreement of trades to ensure that the decisions to enter into water trades have taken into account the long term nature of water trading and supply-demand balances.

Anglian Water will evaluate on the basis of long term strategy as published in its draft WRMP and undertake due diligence on any imports together with Anglian Water's own analysis of exports taking full account of utilisation and income.

Anglian Water will provide, for all successful trades, an audit report that will examine the processes followed during the procurement process.

Mandatory requirements for an import/export to qualify for an incentive payment

Principle	Anglian Water's approach
Imports and exports	
Commencement	A qualifying trade must have been agreed on or after July 2013
Qualifying period	A qualifying trade must be operating during the period between April 2015 and March 2025
Trade partners	A qualifying trade must be between wholly unrelated companies

Other principles

Principle	Anglian Water's approach
Imports and exports	
Assignment	A Trading partner is prohibited from assigning a qualifying trade agreement to any other party without consent from Anglian Water
Co-operation	Trading parties will co-operate with each other in the general interests of the continuous provision of wholesome water and the operation, maintenance and integrity of the public water supply system
Environmentally sensitive abstraction	Anglian Water supports the greater use of water trades but remains committed to serving its customers in an environmentally responsible way. Anglian Water will work with the Environment Agency to manage current abstractions including reducing volumes licensed for abstraction under the Environment Agency's sustainability reductions programme. Anglian Water will only agree to water trades where there is no undue, adverse effect on the natural environment
Emergencies	Anglian Water will remain responsible for managing procedures relating to all of its water supply system
Qualifying trade	A qualifying trade will be a new agreement, that complies with this code, between Anglian Water and another water company to import or export to that company's water supply network
Trade agreement	A trade agreement will need to be completed by the trading parties before a qualifying trade can begin
Trade effects	A qualifying trade must not be at any detriment to any of Anglian Water's customers or the water and waste water services provided to them. A qualifying trade must not have any detrimental effect on water quality, the natural environment or the supply system
Water quality	Trades can be for raw or treated water. Traders must abide by Water Quality protocols as stipulated by the DWI

4. GLOSSARY OF TERMS

Abstraction	The licenced removal of water from the natural environment
Abstraction Licence	The Licence required to remove water from the natural environment
Consumer Council for Water	The Statutory consumer body for water and wastewater consumers in England and Wales
Defra	Department for the Environment, Food and Rural Affairs
Environment Agency	Regulator for the natural environment in England
Price Control PR14 (PR19)	The limits set by Ofwat on the charges that appointed companies can make for their services
Sustainability reduction	Reductions in licensed abstraction that are required by the Environment Agency to provide environmental improvements
Water Industry Act 1991 ("WIA")	The primary legislation governing water supply and the provision of sewerage services
Water Resources Act 1991	The primary legislation to protect water resources and prevent and minimise pollution of water courses
The Water Act 2003	Amendment to WIA formalising the framework for abstraction licensing
The Water Act 2014	Amendment to WIA enabling greater competition for non household customers
WRMP	The Water Resources Management Plan is a water company's long term plan for managing its supply demand balance in accordance with the Water Industry Act 1991 section 37 and is updated every 5 years
WRZ	A water resource zone is the largest possible zone in which all water resources, excluding external transfers, can be shared. It is the zone in which all customers experience the same risk of supply failure from a resource shortfall
Water Supply Licensing	The competitive market provisions for water supplies introduced by the Water Act 2003
Water Supply and Sewerage Licensing	The competitive market provisions for water and sewerage services, introduced by the Water Act 2003 and expanded by the Water Act 2014

5. USEFUL REFERENCES

Below is a list of relevant documents or documents referred to within this code, with hyperlinks.

1. Ofwat's guidance on Trading and Procurement Codes

<https://www.ofwat.gov.uk/publication/trading-and-procurement-codes-guidance-on-requirements-and-principles/>

2. Anglian Water's Network Access code

http://www.anglianwater.co.uk/_assets/media/NAC2017.pdf

3. Anglian Water's 2014 WRMP

http://www.anglianwater.co.uk/_assets/media/WRMP_2015.pdf

4. Anglian Water's d2019 WRMP

http://www.anglianwater.co.uk/_assets/media/Anglian_Water_draft_WRMP_2019_Main_report.pdf

5. Resource Zone summaries

http://www.anglianwater.co.uk/_assets/media/Anglian_Water_draft_WRMP_2019_WRZ_summaries.pdf

6. Anglian Water's Instrument of Appointment

https://www.ofwat.gov.uk/wp-content/uploads/2015/10/lic_lic_ang.pdf

7. Anglian Water's Water Resources Market Information

<https://www.anglianwater.co.uk/about-us/water-resources-market-information.aspx>

8. The Water Industry Act 1991

<https://www.legislation.gov.uk/ukpga/1991/56/contents>

9. The Water Resources Act 1991

<https://www.legislation.gov.uk/ukpga/1991/57/contents>

10. The Water Act 2003

<https://www.legislation.gov.uk/ukpga/2003/37/contents>

11. The Water Act 2014

<https://www.legislation.gov.uk/ukpga/2014/21/contents>

