



# Water trading incentive compliance

## Blind Year Reconciliation 2024-25

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## Introduction to the water trading incentive compliance document

This document sets out details relating to two new water trades that commenced in AMP7 and how they comply with Thames Water's Trading and Procurement Code<sup>1</sup>, published in October 2019 ("the Code"). Documenting compliance with the Code is a requirement of including the new water trades within the PR19 Water trading incentive model that is being updated as a part of the Blind Year Reconciliation ("BYR"). The BYR adjusts the forecasts for 2024-25 performance that were included within the PR24 Final Determination to reflect the actual performance recorded through the Annual Performance Report for 2024-25.

During AMP7, two new exports commenced. Both export water to Affinity Water from our London Water Resource Zone ("WRZ"). One was at Perivale compensating for a temporary loss of abstraction for Affinity Water resulting from the construction of HS2 and the other at Cockfosters directly facilitating the construction of HS2.

A Bulk Supply Agreement ("BSA") was negotiated with Affinity Water for each export. They were signed in March 2024 (Perivale) and August 2024 (Cockfosters). Details of the agreements are set out below.

### Export 1: Perivale

The construction of HS2 restricted the deployable output that Affinity Water could produce from its Blackford Water Treatment Works. To compensate for this, Affinity Water sought a bulk supply from Thames Water for 10 Ml/d. The supply was initiated on 1 May 2021 and will continue for 10 years. It is chargeable according to Thames Water's wholesale large user rates, as published in our Wholesale Tariff Document<sup>2</sup>.

The price control allocation for this bulk supply is 100% to the Water Network Plus price control as the water supplied is potable and hence has made full use of the water treatment and treated water distribution upstream services.

### Export 2: Cockfosters

The construction of HS2, in particular the Chiltern and Northolt tunnels, necessitated a new bulk supply into Affinity Water's supply area to provide a source of building water. The supply is for 5 Ml/d and was initiated on 1 January 2022, continuing for a period of 5 years. It is chargeable according to Thames Water's wholesale large user rates, as published in our Wholesale Tariff Document<sup>2</sup>.

The price control allocation for this bulk supply is 100% to the Water Network Plus price control as the water supplied is potable and hence has made full use of the water treatment and treated water distribution upstream services.

## Thames Water's Trading and Procurement Code

Each water company should have a Trading and Procurement Code approved by Ofwat. The document sets out the requirements and principles that water companies should adhere to when agreeing a new trade, either of water or of services. A new trade should make the

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<sup>1</sup> ['Trading and Procurement Code'](#), Thames Water, October 2019

<sup>2</sup> ['Wholesale Tariff Document 2024-25'](#), Thames Water, January 2024

best use of the collective resources available, enhancing the services and security of supply afforded to customers whilst minimising the impact on the environment.

There are three requirements and 12 principles included within our Trading and Procurement Code. The detail that follows illustrates how the Perivale and Cockfosters water trade exports comply with these requirements and principles.

**Table 1: Requirements of the Trading and Procurement Code**

| Requirement          | Requirement detail                                                               | Compliance evidence                                                                                            |
|----------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| 1. Commencement      | A qualifying trade must have been agreed no earlier than July 2013.              | The two new trades were agreed in March 2024 (Perivale) and August 2024 (Cockfosters) <sup>3</sup> .           |
| 2. Qualifying period | A qualifying trade must be operating during the period April 2015 to March 2025. | The Perivale supply was in operation from May 2021. The Cockfosters supply was in operation from January 2022. |
| 3. Trading partner   | Trades must be between unrelated parties.                                        | Thames Water and Affinity Water are two unrelated and separate incumbent water companies.                      |

**Table 2: Principles of the Trading and Procurement Code**

| Principle                         | Compliance evidence                                                                                                                                                                                                                                                 |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Non-discriminatory procurement | Thames Water already has a portfolio of legacy water trades with a range of other incumbent water companies, including Affinity Water, thus evidencing that we are willing to export to any third party with a legitimate need for a bulk supply of water.          |
| 2. Economic purchasing            | This principle is not applicable for the exporter in a water trade.                                                                                                                                                                                                 |
| 3. Using competitive processes    | This principle is not applicable for the exporter in a water trade.                                                                                                                                                                                                 |
| 4. Contract duration              | The duration of each contract was negotiated based on the specific needs of Affinity Water as the importer. Consideration of the underlying reasons for the water trades, namely the construction of HS2, played a part in the contract durations that were agreed. |

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<sup>3</sup> Negotiations of certain terms within the BSAs continued after the supply of water commenced, hence the supplies had been in operation for some time before the BSAs were signed. The commencement dates for the BSAs were then aligned with the dates on which the supplies came into operation.

|                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5. Transparency                             | <p>Negotiations with Affinity Water were open, with a clear steer being provided by each party regarding the terms of the water trade that they required.</p> <p>Sharing of information was appropriately actioned during the negotiation process, within the bounds of normal commercial confidentiality.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 6. Links to WRMP                            | <p>The capacity within our supply side resources and the requirement for safeguarding future supplies for our own customers, having regard to plans in our WRMP, were considered when agreeing to the daily volume allowances being requested by Affinity Water.</p> <p>The clauses built into each BSA regarding volumes of supply reflect the extent to which we can meet the requests made by Affinity Water without jeopardising the supply of water to our own customers, for example under drought conditions, per our Drought Plan.</p>                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 7. Rationality (Economic and Environmental) | <p>The locations at which Affinity Water needed additional supply capacity meant that import options were limited to Thames Water being the exporter. Other neighbouring incumbent water companies were not practical options given the distance between the shared boundaries and the required supply points that are in west and north London. Other existing bulk supplies that Affinity Water were in receipt of were already fully utilised. It therefore made the most economic sense for Affinity Water to approach Thames Water as a preferred supplier of new water trades.</p> <p>The headroom in our abstraction and treatment capacity in the WRZ (and specifically the water treatment works) that would supply the Perivale and Cockfosters sites would not lead to an adverse environmental impact from the new water trades. There were therefore no environmental blockers to us agreeing to the request from Affinity Water for these new trades.</p> |
| 8. No artificial ending of trades           | <p>Both trades commenced during AMP7, so the water trading incentive is being claimed for the first time as a part of the PR24 process.</p> <p>We assure Ofwat and others that we will not artificially end and restart any of our current</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                       | trades in order to exploit the financial incentives for trading.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 9. Correct assessment of costs                        | <p>Both trades are charged according to the relevant published wholesale large user rate within our annually updated Wholesale Tariff Document.</p> <p>The one-off costs to enable and commission the bulk supply of water at each site were discussed with Affinity Water and appropriately allocated between the two parties based on the nature and likely future use of the assets required to facilitate the new water trades.</p>                                                                                                                                                                                                                                                                                                                                                                                              |
| 10. Appropriate allocation of incentives              | We have wholly allocated the incentives to the Water Network Plus price control as the water supplied is potable and hence has made full use of the water treatment and treated water distribution upstream services.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 11. Consistency with Bid Assessment Framework (“BAF”) | This principle is not applicable for the exporter in a water trade.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 12. Evidence of assurance processes                   | <p>The process of negotiating and agreeing the BSA for each bulk supply involved liaising with our Operational teams to ensure the security of supply was assured to the degree set out in the BSA. Our Legal team led on the production of each BSA to ensure compliance with all legislation including the Competition Act 1998.</p> <p>Final sign-off of the BSAs by Thames Water was provided by an authorised signatory with the appropriate delegated authority.</p> <p>As required by Ofwat in their Information Notice<sup>4</sup> that relates to the PR19 Blind Year Reconciliation (“BYR”), we have had the PR19 Water Trading Incentive model externally audited. This ensures that we are including appropriate costs and revenues as the exporter to calculate the incentive relating to the two new water trades.</p> |

In addition to the requirements and principles detailed above, our Trading and Procurement Code references a number of other issues relevant to our approach to water trading. These are discussed below.

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<sup>4</sup> [‘IN 25/01 Expectations for the PR19 blind year reconciliation’](#), Ofwat, March 2025

**Table 3: Issues relevant to water trading**

| Issue           | Issue detail                                                                                                                                                                                                                                                                                                          | Compliance evidence                                                                                                                                                                                                                          |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit           | A report will be produced and submitted to Ofwat to demonstrate how any new water trades are compliant with the Code.                                                                                                                                                                                                 | This report addresses this issue.                                                                                                                                                                                                            |
| Assignment      | A trading partner is prohibited from assigning a qualifying trade agreement to any other party without consent from Thames Water.                                                                                                                                                                                     | The agreements signed by Affinity Water and Thames Water continue to be between these two parties. Clauses relating to assignment are included within the signed BSAs.                                                                       |
| Compliance      | All reasonable and appropriate steps will be taken to ensure that we comply with relevant laws and regulations.<br><br>We will report on the processes we followed during the trade negotiations and our approach to cost allocation. The report will demonstrate that we have complied with all aspects of the Code. | Our Legal team led on producing the BSAs and ensured that they complied with all relevant legislation and regulatory requirements, including the Competition Act 1998.<br><br>This report details and confirms our compliance with the Code. |
| Confidentiality | Potential trade partners may need to sign a confidentiality agreement at the outset of negotiations.                                                                                                                                                                                                                  | Appropriate levels of confidentiality were agreed and observed during negotiations with Affinity Water for the production of the BSAs, which also include specific confidentiality clauses.                                                  |
| Cooperation     | 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.                                                                                                               | The working relationship between Affinity Water and Thames Water during negotiations and since commencement of the agreements has been co-operative and seeking a solution that works for both parties.                                      |
| Emergencies     | Thames Water will retain primary responsibility for managing emergency procedures relating to our water supply network. We will expect our trading partner to cooperate if an emergency or security issue arises which could affect the water supply                                                                  | Relevant clauses regarding the emergency export procedure and instances where the supply cannot be fulfilled have been included in the BSAs signed by both parties.                                                                          |

|                                       |                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                             |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                       | network and the trade agreement.                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                             |
| Environmentally sensitive abstraction | We must be able to assure Ofwat, the Environment Agency and others that we will only agree water trades where we are satisfied there is no undue adverse effect on the natural environment.                                         | The headroom in our abstraction and treatment capacity in the WRZ (and specifically the water treatment works) that would supply the Perivale and Cockfosters sites would not lead to an adverse environmental impact from the new water trades.                            |
| Equity                                | Thames Water will treat all trading partners and potential partners fairly and equitably.                                                                                                                                           | The interactions with and offers made to Affinity Water for the requested water trades are as they would have been for any third party making such a request, so our treatment of the trading party has been equitable.                                                     |
| Managing imports and exports          | We will work with the importing trade partner to ensure exports of water by Thames Water are as efficient as possible. We will look to minimise the costs of exports, for example by using existing infrastructure, where possible. | The supply points for the two new water trades were selected to minimise the disruption to the existing Thames Water network and our customers. The sites were also agreed so as to be practical and efficient for Affinity Water's purposes.                               |
| Qualifying trade                      | A qualifying trade for the purposes of water trading incentives is a water trade agreement that complies with the principles set out in the Code.                                                                                   | This document confirms that both of the new water trades are compliant with the Code and hence are qualifying trades.                                                                                                                                                       |
| Trade agreement                       | A water trade agreement will need to be completed by the trading parties before a qualifying trade can begin.                                                                                                                       | The BSAs were agreed and signed in March 2024 (Perivale) and August 2024 (Cockfosters).                                                                                                                                                                                     |
| Trade effects                         | A qualifying trade must not lead to any material deterioration in water quality or service to any customer, or to the supply system or to the natural environment.                                                                  | Both parties monitor the water quality of the new trades as well as the volumes of water transferred. Relevant clauses are included in the BSAs. An additional chlorination plant was installed by Affinity Water to ensure consistent taste and odour for their customers. |
| Water quality                         | Water trades can be for raw or treated water. Traders must abide by Water Quality                                                                                                                                                   | Water quality monitoring is undertaken by both parties on their respective sides of the supply point.                                                                                                                                                                       |



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|--|-------------------------------------|--|
|  | Protocols as stipulated by the DWI. |  |
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## PR19 Water trading incentive

The costs and revenues that we have used to populate the PR19 Water trading incentive model have been sourced from table 4A of the APR and its associated workings.

The table below shows the costs and revenues used in the model for each new water trade. Figures shown are in 2017/18 FYA CPIH deflated prices.

**Table 4: Revenue and cost inputs into the PR19 Water trading incentive model**

| Site        | Category      | 2020-21<br>£m | 2021-22<br>£m | 2022-23<br>£m | 2023-24<br>£m | 2024-25<br>£m | Total<br>£m   |
|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Perivale    | Revenue       | 0.00          | 0.23          | 0.32          | 0.44          | 0.33          | <b>1.33</b>   |
|             | Cost          | 0.00          | (0.08)        | (0.11)        | (0.13)        | (0.14)        | <b>(0.47)</b> |
|             | <b>Profit</b> | <b>0.00</b>   | <b>0.15</b>   | <b>0.21</b>   | <b>0.31</b>   | <b>0.19</b>   | <b>0.86</b>   |
| Cockfosters | Revenue       | 0.00          | 0.02          | 0.06          | 0.59          | 0.23          | <b>0.90</b>   |
|             | Cost          | 0.00          | (0.00)        | (0.02)        | (0.18)        | (0.12)        | <b>(0.32)</b> |
|             | <b>Profit</b> | <b>0.00</b>   | <b>0.01</b>   | <b>0.04</b>   | <b>0.41</b>   | <b>0.11</b>   | <b>0.58</b>   |

The model assumes a discount rate of 2.92% and a profit-sharing ratio of 50%. The output of the model shows that a water trading incentive of £0.74m (2017/18 prices) is to be adjusted into the remaining years of AMP8 through the Blind Year Reconciliation process.