



Our Ref. AAB/YMO

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

10 April 2015

Dear Sir/ Madam

CONSULTATION ON COMPANY MONITORING FRAMEWORK

We welcome the opportunity to respond to your proposals on the company monitoring framework, and have set out our detailed response to your specific questions (listed on page 21 of the consultation paper) below.

We would also like to express our appreciation for the opportunity to meet with Peter Jordan in January 2015 to listen to Ofwat's views on our PR14 submissions, and to acknowledge the significant improvements that have been made by the new Executive Management Team following the publication of the Draft Determination.

We have responded below to the specific consultation queries that you have raised.

- 1) **Do you agree that companies in the self-assurance category should provide explicit sign off on the assurance that has been provided?**
- 2) **Do you agree that the assurance process, and the outcomes of that assurance process, should be transparent? Do you have any suggestions of how this could be accomplished?**

With regard to both 1) and 2) above, we would expect companies in the self-assurance category to provide explicit sign off on the assurance that has been provided and agree that the assurance process should be transparent.

- 3) **Do you agree that a company in the prescribed category should consult on its assurance plans with stakeholders? If not, what approach to prescribing assurance would you suggest?**
- 4) **Do you consider the outline approach that we have set out to be practicable, or can you suggest improvements?**
- 5) **Do you think that our guidance could be minimal or do you think that it is necessary for us to define a high level of prescription to protect customers?**

Our response to 3), 4) and 5) is summarised as follows.

We agree that it is important to consult on assurance plans with stakeholders, although these stakeholders will clearly have differing needs (i.e. customers are unlikely to require the level of detail that Ofwat may wish to see).

A key area of clarification is the definition of stakeholder and your expectations as to which specific stakeholders we need to consult with. Our external stakeholders range from our customers, regulatory bodies, financial institutions (rating agencies, banks) shareholders, suppliers and external auditors, for example, and as such it will be critical to understand which of these stakeholders you believe to be 'key' for the purpose of the consultation process.

We accept the broad consultation proposals that have been set out on page 12 of your paper, though we note that clarity is needed on the requirement to publish the plan "two months before the plan is required to be used". This would strictly mean that the plan for FY15/16 is required immediately. We expect that the timetable for submitting the first assurance plan will be consistent between 'prescribed' and 'targeted' companies and that publication for consultation is, subject to confirmation, likely to be expected in the final quarter of the 2015 calendar year.

Whilst the responsibility for defining the assurance plan should sit wholly with the company, as management will be best placed to identify risks and the appropriate plan to mitigate these risks, it is important that the process is framed by clear guidance from Ofwat. This guidance is required to ensure consistency in the preparation of plans between companies (notably in the level of detail presented in the assurance plans), and to clarify Ofwat's basic expectations with regard to these plans.

A high level of prescription is not necessary, but the guidance must be sufficiently detailed to ensure that companies have a clear understanding as to how Ofwat expects the assurance plans to be presented.

- 6) Do you think that companies in the targeted category should publish an assessment of risks, strengths and weaknesses, to be used to target more prescriptive assurance requirements? If not, please suggest how we should target the areas that require more prescriptive assurance.**

As noted above, the responsibility for defining the assurance plan should sit wholly with the company, as management will be best placed to identify risks, strengths and weaknesses and the appropriate plan to mitigate these risks.

- 7) Do you think that the prescription for targeted areas should be the same as the prescribed assurance category? If not, please suggest how assurance should be prescribed.**

We believe that, to ensure consistency between companies, the prescription for targeted areas should be the same as that for the prescribed assurance category.

- 8) Do you think that, for areas that are not targeted, the prescription for these areas should be the same as the self-assurance category? If not, please suggest how assurance should be prescribed.**

As in the response to point (7), in order to ensure consistency between companies we believe that the prescription for non-targeted areas should be the same as the self-assurance category.

- 9) Do you think that companies should move to a tighter assurance category immediately an issue that reduces trust and confidence comes to light, rather than wait for an annual review? Do you think that the examples which we have provided are appropriate?**

We believe that an annual review is most appropriate and that companies should not move up or down between categories immediately as this will result in too much volatility and increase the burden of external stakeholder management.

The examples provided are an appropriate means of assessing annual performance.

- 10) Do you think it is appropriate that companies can move up from the prescribed to targeted category or targeted to self-assurance category without the need for a positive relative assessment?**

We do not consider that a positive relative assessment should be a pre-requisite for a company to move between categories.

If a company has successfully demonstrated that it has addressed the risks and issues noted in previous periods by implementing a robust assurance programme, it should be possible to move between categories without relative assessment against other companies. A company should not effectively be penalised if other companies have also improved their own procedures and addressed their own areas of focus.

- 11) Do you think that an annual relative review is unnecessary? If you think Ofwat should undertake an annual relative assessment, do you consider it necessary for moving companies both up and down or only in one direction?**

Whilst we agree that a review should be undertaken on an annual basis and used to determine the categorization of companies for assurance purposes, as noted in our response to point (10), we believe that this review does not need to be relative and instead should reflect the progress of each company in developing a robust assurance plan and addressing the risks identified in respect of their targeted areas.

12) Do you think that it is appropriate for companies to spend at least two years in the prescribed assurance category?

We do not believe that it is necessary for companies to spend two years in the prescribed category. In our case, we have already demonstrated that the minor data issues identified in certain earlier PR14 submissions have been resolved. If this improvement is maintained over the next year, we strongly believe that we should be able to move up a category at that time.

Furthermore, we believe that Ofwat should positively incentivise companies to move upwards in as short a period as possible and also that it is essential that consistency is shown for each category.

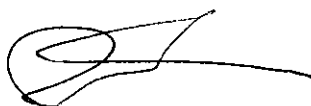
13) Do you agree that the overall package of proposals leads to appropriate incentives for companies? Are there ways you consider that these incentives could be improved?

We believe that it should ultimately be possible for all companies to sit in the 'self-assurance' category (or, at a minimum, for no companies to have 'prescribed' status), if they have provided sufficient comfort that areas of focus have been addressed, regardless of any relative comparisons across the sector.

The clear incentive for all companies is to either maintain their categorisation (self-assurance) or to improve from either targeted or prescribed through demonstrable assurance and monitoring processes.

In the event that you have any queries on the above responses we look forward to hearing from you, and can provide further information as required.

Yours faithfully



Andrew Bickerton
Finance Director