

Company monitoring framework – further consultation

Introduction and general comments

This is Sembcorp Bournemouth Water's response to Ofwat's consultation on the proposed company monitoring framework for 2015-2020.

We welcome the opportunity to comment on the proposal and support the move towards the adoption of the company monitoring framework. We agree that it will contribute to engendering stakeholders' trust and confidence in the assurance process while also encouraging companies to focus on their regulatory assurance frameworks.

In our view the scope and cost of consultation with stakeholders must be appropriate and proportionate, and therefore the extent of engagement that targeted and prescribed companies should go to when consulting on their assurance plans could be company specific. If a company's AMP6 CCG membership encompasses a wide range of stakeholders including regulators and customers then arguably the scope of consultation could be less than where a company has less broad representation.

We do not think that companies should automatically move to a tighter assurance category immediately an issue comes to light. All decisions should be made on a company-specific and case-specific basis using a transparent framework which will enable appropriate and proportionate action to be taken.

During the PR14 process differing interpretations of requirements led to additional work for all concerned and a wish to avoid this recurring may lead to unnecessary cost to companies. To ensure that best value is achieved from the monitoring framework a review with the aim of driving further benefits from the process could be helpful. We suggest that after two years is appropriate.

We respond to the specific consultation questions below.

Consultation questions

Self assurance

Q1 Do you agree that companies in the self-assurance category should provide explicit sign off on the assurance that has been provided?

We agree.

Explicit sign-off is a component part of the trust placed by categorisation in to this category. The integrity of that trust could, in stakeholders' eyes, be undermined by a company not evidencing that sign-off on its assurance.

Q2 *Do you agree that the assurance process, and the outcome of that assurance process, should be transparent? Do you have any suggestions of how this could be accomplished?*

We agree.

As stated in response to question 1, self-assurance is a demonstration of trust in a robust assurance framework and to not evidence this robustness in the public domain could undermine the integrity of the monitoring framework process. Placing this requirement on self-assured companies also provides an incentive for companies to maintain standards which itself could be viewed as further assurance that companies are 'doing the right thing'.

To make the process more transparent again companies could be required to share and discuss their assurance activities with their AMP6 CCG, and publish the minutes of the discussion.

Prescribed assurance

Q3 *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?*

We agree with the proposal.

Prescribing a methodology will engender stakeholder confidence that an appropriate approach has been followed, but without requiring company involvement in the process it may not invoke stakeholder trust that a company in this category will own and manage its risks and assurance processes.

The consultation proposal is a more holistic way of encouraging any company in this category to review and take ownership of its assurance processes and for this reason we support it.

Q4 *Do you consider the outline approach that we have set out to be practicable, or can you suggest improvements?*

The timetable laid out in the consultation is unclear to us.

While targeted companies will be required to publish risk statements in autumn, the prescribed proposal is less clear.

The proposed 'two-month window prior to an assurance plan being used' leaves very little time for a company to revise, republish and agree its plan should the full 6-week comment and response phase be utilised.

It may be preferable to stipulate 'autumn' for the prescribed assurance process too. We interpret this to be around mid-September.

Q5 *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?*

Not providing detailed guidance introduces the risk that a company's own interpretation of expectations may not be in line with stakeholders'. The consultation process should theoretically allow this to be resolved, but the proposed 2-month timescale would put

pressure on all parties to resolve the matter quickly, which may not ultimately be in the best interest of customers.

If the timescale is extended as we have proposed above (see question 4) then it should be possible to be less prescriptive and allow the consultation and feedback process to develop a robust plan.

However if a 2-month consultation process is retained, as systemic issues have been previously identified it is appropriate to be more prescriptive.

Targeted assurance

Q6 *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.*

A good assurance framework should enable companies to understand their risks, strengths and potential weaknesses therefore it is logical that companies are best-placed to use their own analyses to target these areas.

Sharing the analysis with stakeholders is a reasonable way of subjecting it to challenge, although as we have stated in the introduction companies should be free to determine the level of stakeholder engagement, with a minimum level being regulators and CCGs.

Q7 *Do you think that the prescription for targeted areas should be the same as for the prescribed assurance category? If not please suggest how assurance should be prescribed.*

We do not think that this is necessary.

A company in the targeted category is recognised as having good assurance processes, albeit with isolated issues identified, therefore as a result of its analysis of strengths and weakness should have the systems in place to identify appropriate assurance for these areas.

Instead of prescribing assurance processes for targeted areas it may be more appropriate that these prescribed levels are only invoked if Ofwat or other stakeholders disagree with a company's published assurance plan proposal for these areas. This will encourage ownership of the issue by companies and collaborative stakeholder relationships.

Q8 *Do you think that for areas that are not targeted that the prescription for these areas should be the same as the self-assurance category? If not please suggest how assurance should be prescribed.*

We agree that non-targeted areas should be subject to the same level of prescription as self-assessment.

Moving between categories

Q9. *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?*

No, we do not think that they should.

While the examples in the consultation are reasonable our view is that any decision should be made on a company-specific and case-specific basis using a transparent assessment framework that is easily understandable by all parties and will enable appropriate and proportionate action to be taken. If, for example the company is able to demonstrate that it has a robust and holistic assurance framework in place, yet despite this a performance issue has occurred such an assessment framework should determine that the company should be given the opportunity to take corrective action. If, on the other hand, the company cannot prove this and the issue has arisen due to systemic failure the framework should determine that the company should move to a tighter assurance category.

Consultation with the company's AMP6 CCG should also form part of the assessment framework. These groups will be well-placed to comment on the trust and confidence they have in the company whose customers they represent and therefore their opinion should be a key deciding factor along with the severity of the issue.

If they are not part of the CCGs other regulators should also be consulted prior to any decision being made.

Q10. *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?*

Yes, we think it is appropriate. We also think that a company's CCG's views should be a key deciding factor.

Q11. *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?*

We do. An annual assessment will introduce a regulatory burden on Ofwat and companies and does not seem consistent with the direction of travel.

It may be appropriate to conduct a review in year three of the price control period to sense-check the status at the time and inform the PR19 process.

Q12. *Do you think that it is appropriate for companies to spend at least two years in the prescribed assurance category?*

Yes. At least this length of time would be needed to demonstrate a consistent improvement.

Q13. *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 agree. We have no suggestions for improvements to the incentives.

After an appropriate length of time, say 2 years, we would welcome a review of the process in order for all stakeholders to evaluate its effectiveness to date and how it might be improved for the benefit of all going forward. We would support using cross-stakeholder workshops such as were recently held. In our view these are very helpful and informative.

We also encourage an ongoing dialogue to ensure that the transparency, trust and confidence at the centre of the proposals are developed on a continual basis. Companies should be interacting with both Ofwat and their CCGs but this could be extended to Ofwat interacting with CCGs.

Summary

In summary we;

- broadly agree with the proposals and support the direction of travel
- support using CCGs' views as key deciding factors in decision making
- believe the level of consultation needed should be company-specific and dependent on the composition of its CCG
- propose requiring prescribed companies to follow the same autumnal timetable as targeted companies
- do not support the automatic movement to a tighter assurance category, but suggest that an assessment framework is used to determine appropriate and proportionate action
- would welcome a review of the process after two years.

*Sembcorp Bournemouth Water
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