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Dear Sir/Madam

Ref: *Company Monitoring Framework – further consultation: Thames Water response*

Thank you for the opportunity to respond to Ofwat's 'Company Monitoring Framework – further consultation'. We have set out in the attached appendix our detailed views on the specific questions raised.

We support Ofwat's approach to a Company Monitoring Framework providing assurance over information that companies are required to publish for the AMP6 price control after 1 April 2015¹ and agree that the framework should be transparent, and promote trust and confidence. With respect to the consultation we have some additional points to make below.

- We fully understand that earning trust and confidence lies with us and that the assurance process will be company led. We aim to provide assurance by the most efficient means, reviewing our assurance and reporting framework and assessing our performance against our commitments on an annual basis.
- We welcome concepts that will reduce the regulatory burden and add value to customers and stakeholders. Therefore we believe that companies should own the assurance process and that Ofwat guidance should be limited to the minimal level to provide appropriate clarity on specific assurance requirements, with intervention only where assurance plans or outcomes are inadequate.
- We will publish our assurance plan as part for our year end performance reporting in line with Ofwat's autumn timeline, following appropriate engagement with our customers and stakeholders.

Please feel free to contact me if we can provide further information on our response or you would like to discuss any of the issues raised.

Yours sincerely

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¹ We note that our 14/15 year end AMP5 performance will be reported after this date

Appendix 1 Ofwat's Company Monitoring Framework – further consultation company's response – detailed 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?

Company's response

We agree that explicit Board sign-off should be provided by companies in the self assurance category. Explicit sign off by the Board provides evidence of their confidence in a robust governance process and offers a final review prior to publication of assured information.

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?

Company's response

We agree that the assurance process and its outcome should be transparent. As a minimum, for AMP6 we will ensure transparency by publishing an annual assurance plan in the autumn, detailing our plans for assurance and reporting of outcomes throughout 2015/16 and each year of AMP6 thereafter. This Plan will be developed following engagement with our stakeholders and customers. We further believe that all companies should be held accountable to their assurance plan.

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?

Company's response

We believe that all companies, including those in the prescribed category, should consult with stakeholders on their assurance plans.

To help rebuild trust and confidence we would expect a company in the prescribed category to consult with customers and stakeholders in greater detail and possibly greater frequency than for a company in the self-assurance or targeted category. To support the most appropriate form of assurance the consultation would need sufficient time to circulate, collate, review, approve and implement responses.

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

Company's response

In principle the approach to prescribed assurance looks practicable. However, in order to provide an effective assurance plan that builds trust and confidence, we believe it would be more effective to allow the prescribed company to manage the timescale independently unless intervention was required to ensure the company complied with the framework. To ensure that a robust assurance plan is in place that resolves and closes assurance issues, a company in the prescribed category may feel the process requires more or less time on particular areas, including that of stakeholder engagement.

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?

Company's response

We believe that guidance for all companies including those in the prescribed category should be minimal with a company's own assurance plan providing the basis for a robust assurance framework. Minimal guidance helps companies manage the regulatory burden and would best support a company in building the trust and confidence to progress towards a self-assurance approach. We would expect prescriptive guidance to be minimal, proportionate and appropriate to the specific areas of weakness identified. We accept that in order to protect customers, if a company has failed to demonstrate adequate controls are in place, that more prescriptive guidance may be required.

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.

Company's response

We believe that all companies, including those in the targeted category, should publish an assessment of risks and their corresponding mitigating actions, rather than strengths and weaknesses. These risks will inform our assurance plan, published annually, and ensure that our approach to assurance and reporting is in line with the expectations of our customers, stakeholders and regulators. The assessment will be published at a level and in a format relevant for our customers and stakeholders.

To be proportionate the specific prescriptive assurance requirements imposed on targeted companies should be limited to cases where the risks identified are not being adequately addressed through companies' own assurance plans and the potential impact on customers is material. Our consultation with customers and stakeholders will provide feedback to address this.

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.

Company's response

We believe that companies in the targeted assurance category should fulfil the first requirement for the prescribed category - i.e. to publish an assurance plan which identifies risks (that have resulted in it being categorised as "targeted") and how the company proposes to mitigate or eliminate these risks. The more prescriptive assurance should be limited to cases where the risks are not being addressed through companies' own assurance plans and where the potential impact on customers is material. An important consideration is the cost to customers of any assurance framework, which should be proportionate and cost effective to provide value for money for the level of assurance provided.

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.

Company's response

For areas that are not targeted, we believe the prescription should be the same as the self assurance category. Our understanding is that companies set this level of assurance and Ofwat will provide appropriate guidance where necessary.

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?

Company's response

We do not agree that a company falling short in one area of its business is evidence of a reduction in trust and confidence, particularly where a company has outperformed in other areas. The totex cost to customers of the additional assurance required by such a movement is also relevant. The test should look at materiality; companies' performance reports overall; their response to poor performance and how well they have engaged with stakeholders.

Companies should have the opportunity to rebuild trust and confidence and the speed of re-categorisation should be symmetrical for upward and downward movements. We believe that for business as usual, an annual review would be adequate. However, in the event of the occurrence of a significant, material one off event or discovery, it may be appropriate to deal with the occurrence immediately without the need to wait for an annual review.

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?

Company's response

For the avoidance of doubt we would expect that a relative assessment would be relative to the previous performance of the company. We would expect an evidence based assessment to justify moving a company up or down. Whilst trust and transparency are the tenets for reporting AMP6 performance, there would need to be independent verification to support a move from one category to another.

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 either up and down or only in one direction?

Company's response

We would expect that an annual review would be part of the process to determine whether a company would move category, but do not believe there should be a minimum wait period before companies can be moved. Companies should be moved as soon as appropriate once trust and confidence are restored. The annual relative assessment of companies needs to take account of the different approaches companies have taken in their plans, recognising it is not one-size-fits-all and should work equally in both directions.

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

Company's response

As stated above, we believe the speed of re-categorisation should be symmetrical for upward and downward movements. We understand the logic behind suggesting companies should remain in a particular category for a specified period of time; however we believe that a more effective approach would be to align the time required in a particular category to the level of trust and confidence customers and stakeholders have in the assurance and reporting framework in place. Each company should be considered independently and assessed on its own merits. We also believe that a response should be proportionate and balanced for customers and for companies. If a company is in the prescribed assurance category then we would expect that it would be possible by the end of the first year for a company to have addressed sufficient areas of its assurance to have regained the required trust and confidence to enable a move to the targeted category.

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?

Company's response

In the context of continuous improvement we agree that it is valuable for companies to take the lead in being transparent about their risks, mitigations and assurance plans. We believe that all companies should be following best practice by applying a risk based approach to managing and addressing their risks and, therefore, this process should minimise the regulatory burden. To this end we believe it is in our customers' and stakeholders' interest to consult on and then publish an annual assurance plan each autumn.

In terms of the overall package, items such as the two year spell in the prescribed category from an immediate reaction to an event would benefit from being more proportionate and working equally in both directions.

Whilst the framework is straightforward enough, the package is as yet untested. We would want the package to incentivise companies to focus on the real risks and issues and to be recognised for solving these as quickly as possible. Hence it would be sensible to keep the package under review as we move in to AMP6.