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Peter Jordan  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham  
B5 4UA

9<sup>th</sup> April 2015

Dear Peter,

### Response to Ofwat Consultation - Company Monitoring Framework

In general we support the proposals outlined in the consultation document but would like to offer the following points:

- We would welcome guidance that would promote a better understanding as to how aspects of the framework will work in practice. The underpinning principles mentioned in the consultation (e.g. transparency and accountability) are matters of great importance and will reassure stakeholders that the evolving framework is a balanced one and most importantly reduces the risk of any inaccurate, inconsistent or incomplete reporting.
- We also recognise that a balance has to be struck between targeted prescriptive requirements on the one hand and a less prescribed reporting regime where companies have been or are able to demonstrate high levels of compliance. The adoption of a risk-based approach builds on what has been achieved to date (particularly the changes made since Ofwat removed the requirement to submit a June Return) and, provided that there is a clear understanding of expectations and how the changes will operate in practice, we see no reason why the framework will not operate effectively.
- We do not have any issues with companies being accountable for assessing and managing their own risks as this is something that we have been doing successfully for some time. The categorisation of companies as suggested in the consultation document seems sensible and we have no great concerns around how companies in the "self-assurance" category provide explicit sign off on the assurance that has been undertaken. Equally, we have no concerns around a company monitoring framework for "targeted" companies, and the requirement that companies who fall into this category publish a statement in advance of submitting information (with assurance plans for areas of weakness) is a sensible one.


**glas**  
Glas Cymru Cyfyngedig

We welcome correspondence in Welsh and English  
Rydym yn croesawu gohebiaeth yn y Gymraeg neu yn Saesneg

- As far as those companies who fall into the prescribed category are concerned, we again understand the principles behind what you are seeking to achieve by setting a timetable from publication of an assurance plan to intervention (if this is deemed necessary). However, we believe that greater clarity is needed as to the circumstances in which companies will be held to account and what is expected of them. To this end, clear guidance is needed perhaps with some worked examples showing how this will operate in practice. This was the overwhelming view of the delegates at the workshop we attended in Birmingham.
- We also believe that there is a risk that the credibility of the framework will be undermined if there is insufficient guidance given at the outset. It is reasonable to assume that the framework will in time become embedded into each companies' business and will be reflected in the assurance arrangements it puts in place. However, whilst these major changes are taking place, we would suggest that there is a strong focus on providing meaningful and relevant guidance, in the short term at least. We also suggest that the guidance is kept under review and updated to reflect experiences and lessons learnt. This may mean a higher level of prescription during the implementation phase than will ultimately be the case.
- Turning to Section 3, which sets out how companies move between categories, we have considered carefully whether an annual relative assessment works better than "in year" dynamic assessments that are related to the behaviour of companies. We have no particularly strong views but provided that there is clarity as to how this will be applied, we would, on balance, favour a system which applies dynamic promotion or demotion rather than one which only takes effect after an annual assessment.
- However, if this is the approach selected, it is vitally important that assessments are made objectively and fairly. Constructive dialogue to understand the issues arising and their consequences for customers and other stakeholders should be completed before any decision is made to move a Company between assurance categories. This would ensure that only significant issues will trigger a movement and lead to an increase in trust and confidence in the regulatory regime. We would therefore like to see language included in the Final Guidance which makes explicit reference to proportionality and materiality in the way matters are assessed. The consultation document acknowledges that there are potential risks with this approach and goes on to say that there are a number of protections in place. It would be helpful if these were set out in more detail.
- Finally, we thought it appropriate to highlight a risk which may not be immediately apparent. By expanding the role of Board assurance, Boards may be directed to focus on matters of detail, squeezing out matters of more strategic importance. We are sure that this was never the intention.

I hope that you find these comments helpful – we would be happy to expand on these if you feel that this is appropriate.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Mike Davis', with a large loop at the end.

PA

Mike Davis

Regulation and Strategy Director