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10 April 2015

Dear Cathryn

Thank you for the opportunity to respond to your further consultation on the Company Monitoring Framework.

We continue to support your vision to maintain and increase stakeholder confidence and trust in the sector. We also see how the proposed monitoring framework, in particular the incentive qualities of a published league table, could contribute towards your aim.

Ongoing engagement and performance

The consultation document and the subsequent workshops have been quite narrowly focused on assurance and accuracy of our performance reporting through an "annual performance report". Our ongoing engagement with stakeholders, customers and the communities within which we operate is far wider than this, helping to improve the transparency and understanding of the challenges that we face and our success or otherwise in meeting them.

There is more to be done however and we will be enhancing our work in this area over the coming year through our new Customer and Catchment panels. It would be unfortunate if company efforts in these areas fell outside of your assessment criteria and for our part we undertake to be more transparent with you about the efforts we are making in this area.

Trust and confidence of stakeholders is also very dependent on a company's delivery against its commitments. We think it would be helpful to have a separate assessment of performance alongside reporting accuracy and compliance with obligations.

A two-way conversation

Your framework implies a more public conversation between regulator and company on the quality and accuracy of published data in future. For this to be truly transparent to stakeholders this conversation will need to be two-way.



During PR14 we recognised the pressures on both regulator and companies, and we aimed to take a reasonable approach in clarifying any aspects of your requirements that we found unclear; deliberately avoiding queries on points of detail. In future we commit to being more questioning – this we think will help improve transparency and accuracy of published data on both sides.

It is helpful that you have given some detail in the consultation about your reasons for the current assessments. There is a factual error within your assessment of Wessex which was not picked up by your assurance processes. We have raised this with your team and hope that it will be corrected in your final publication.

Notwithstanding the above as ever Wessex is up to meet the challenges ahead. We have already made some changes and have recently appointed a new technical reporter and agreed our new approach to assurance and reporting with our Board to ensure that we are making the earliest possible start on this for AMP6.

Yours sincerely

Best wishes

Andy

Andy Pymer
Director of Regulation & Customer Services

Consultation Questions

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

Yes.

Q2 Do you agree that the assurance process, and the outcome of that assurance process, should be transparent?

Yes.

Q3 Do you agree that a company in the prescribed category should consult on its assurance plans with stakeholders?

We agree. We would expect a prescribed company to consult with stakeholders (including Ofwat) and having taken due account of stakeholder views (again including Ofwat) publish plans in late autumn.

Q4 Do you consider the outline approach to be practicable, or can you suggest improvements?

Yes this is practicable. Any deadline set for the process to be complete by needs to allow sufficient time for company processes following the publication of data in July for the previous year. We believe that final publication by the end of November would be appropriate.

Ofwat should also undertake to publish and confirm any revisions to current year reporting requirements well in advance of this date. New or revised reporting requirements will clearly be areas of risk that companies' will want to take into account when putting their assurance plans together.

Q6 Do you think 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.

Yes, although Ofwat should also undertake to publish and confirm any revisions to current year reporting requirements well in advance of the date companies are required to publish their assessment. New or revised reporting requirements will be areas of risk that companies' will want to take into account when putting their assurance plans together.

Ofwat must also be rigorous in its own assurance processes where it publishes data about companies' performance in reporting as company Boards and audit committees will pay great attention to this when assessing risks, strengths and weaknesses. Your consultation stated that we had been sent a letter advising us of concerns over our retail and wholesale cost allocation during PR14. No such letter was received. We have made you aware of this and hope you will correct this.

Q7 Do you think that the prescription for targeted areas should be the same as for the prescribed assurance category?

Yes.

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?

Yes.

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?

Yes, although there should be clarity on whether not meeting performance commitments is a criteria for this.

This consultation has been generally narrowly focused on accurate reporting and compliance with statutory obligations shown in a once-a-year performance report, and therefore meeting of performance commitments (where these are not statutory obligations) seems outside of this remit.

We do think however there is merit in having a wider "trust and confidence" assessment to include a company's performance in meeting performance commitments as well as a company's wider efforts to foster trust and confidence of stakeholders outside of an annual performance report and compliance with its obligations. We give further detail in our response to Q13.

Q10 Do you think it is appropriate that companies can move up from prescribed to targeted category or targeted to self-assurance category without the need for a positive relative assessment?

Yes.

Q11 Do you think that an annual relative review is unnecessary? Should an annual relative assessment be necessary for moving companies up and down or only in one direction?

In the context of our answer to Q10 we think that an annual review that allows for companies to move up is appropriate.

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

No, it is important that companies and OFWAT are able to demonstrate that appropriate changes can be made quickly and efficiently.

Q13. Do you agree that the overall package of proposals leads to appropriate incentives for companies?

We continue to support your vision to maintain and increase stakeholder confidence and trust in the sector. We also see how the proposed monitoring framework, in particular the incentive qualities of a published league table, could contribute towards your aim.

The consultation document and the subsequent workshops have been quite narrowly focused on assurance and accuracy of our performance reporting through an “annual performance report”. Our ongoing engagement with stakeholders, customers and the communities within which we operate is far wider than this, helping to improve the transparency and understanding of the challenges that we face and our success or otherwise in meeting them. It would be unfortunate if company efforts in these areas fell outside of your assessment criteria and for our part we undertake to be more transparent with you about the efforts we are making in this area.

Stakeholder trust and confidence also derives from companies’ performance against their plans. We think that this is best assessed alongside transparency and accuracy of reporting through the year. Compliance against statutory and licence obligations could also helpfully be separated from the accuracy of reporting.

The following table shows an example of how this might work:

Trust & Confidence	Transparent and accurate reporting of performance & risk	Company is meeting statutory and licence obligations	Company performance against commitments
Company A	Green	Yellow	Yellow
Company B	Yellow	Yellow	Yellow
Company C	Green	Green	Red

We should also be careful however not to create perverse incentives.

Our performance commitments are subject to a transparent “change protocol” process through our catchment panel whereby in the event that for instance statutory obligations are different to the assumptions at the time of our plan we may with the agreement of stakeholders choose to under-deliver against one performance commitment in the interest of customers. This underperformance may be accompanied by planned outperformance against another commitment. These areas of “under-performance” against the original plan should not necessarily be considered to be items that will reduce trust and confidence.

Similarly there may be circumstances where a company asks Ofwat to open a piece of casework where there is a new issue where the company would like its obligations clarified. Potentially penalising a company for having raised this issue would be counter-productive.