

24 August 2020

## Consultation on regulatory reporting for the 2020 – 21 reporting year

### Leep Networks (Water) Ltd - response

Ms Rachel Fletcher  
CEO, Ofwat

Dear Ms Fletcher

Leep Networks (Water) Ltd (LNWL) welcomes the opportunity to provide input into the proposed changes to the annual performance report. We have restricted our comments to the section relating to Small Companies. In general, we do not consider that the changes are likely to overly burden a small company, though we outline some reservations and would appreciate an opportunity to explore these matters further.

#### **Q18: Small companies reporting**

##### **a. Customer-focused performance summary**

LNWL broadly agrees that the proposals will provide customers with a clearer view of the performance of companies. We have no issue with providing evidence relating to the principle of 'no worse off' and at present we see this as being primarily a demonstration of the annual review of our Codes of Practice, to ensure that they remain fit for purpose.

With regard to the requirement to publish the S1 and S2 tables, we are not clear how this will assist general public understanding. The S2 table, if completed in line with proposals for additional data (PCC and Leakage) may provide misleading or irrelevant data, as we outline in our responses to 18(b) and (c) below. The S1 table contains high-level financial data, based on a business model at odds with incumbent companies in that, as an entity under relative price control, we are not part of the Price Review process with the associated scrutiny of spending and forward proposals. The two models are not directly comparable and attempting to do so could provide an unrepresentative picture of NAV performance.

##### **b. Per capita consumption**

We agree that per capita consumption (PCC) can be an important factor with regard to performance of a network insofar as it may indicate, when used in conjunction with overall site consumption, a need to more closely monitor a particular network for potential leakage. PCC may also be an indicator of changing use patterns amongst consumers and can assist in measuring the effectiveness of demand reduction activities. We suggest, however, that comparison between PCC for individual NAV sites and the wider incumbent's figures is not necessarily of specific use. NAV appointments, by nature of their relatively small size and geographically discrete locations, can have widely varying consumption figures. This is due to the demographics inherent to each site. For example, high-end sites such as some of those within central London may have lower occupancy rates than generally assumed and may be more likely to have vacancies during part of the year, leading to an unusually low consumption figure. The opposite is likely to be true at other sites.

Incumbent figures, by contrast, are derived from much larger data sets, including a still significant level of unmetered supplies, with an associated levelling effect.

With these reasons in mind, we have concerns about the proposal as presented in that it may produce a distorted view of a NAV's position in this area based on potentially misleading data. We would consider it may be more representative to permit an amalgamation of consumption figures at multiple appointed areas, thus providing some diversity and relevance to the results.

**c. Leakage**

We agree that focus on leakage is important, from both a social and environmental perspective. NAV sites have generally been assumed to be low leakage, with new networks and universal metering. Further, there is a strong incentive for a NAV company to respond to potential leaks as the economic level of leakage for a NAV is low, with the NAV expected to pay the incumbent for all recorded consumption and assumed discharge, whether or not that consumption is billable to the end user.

We note the requirement to discount supply pipe leakage and agree that such leakage is recorded on a customer meter and should therefore be kept separate from general network leakage or un-recorded consumption. It is also true that such leakage is more readily identified and LNWL has an active 'waste of water' activity, where further investigation is triggered by a noted rise in consumption through a given meter. LNWL has an active forward programme of conversion to automatic meter reading, which will give more timely visibility of such consumption.

For the purposes of the report as suggested, we would look to align supply pipe leakage with the deduction required in our Water Resource Management Plan, currently set at 10 litres per connection per day.

Network leakage is more difficult to identify and is done through a combination of active monitoring plus comparison between bulk supply and that billed to customers. There are some difficulties associated with this latter element, not least the lack of alignment between bulk billing and customer billing periods. Network monitoring can be done using specialist teams or by having accurate telemetry, generally obtained from the bulk supplier. We consider that active 'on the ground' monitoring would not be an economic use of resources and we do not yet have full access to telemetry data on all networks.

We therefore consider that network leakage figures will necessarily contain a significant element of estimation which, given the requirement to provide per site totals in megalitres against relatively small consumption, may reduce the relevance of the results.

**d. Financial security**

We accept this proposal and have previously supplied these items in the 2019 – 20 return. We would note that, as Ofwat has recently agreed for LNWL, application of the rules as outlined in paragraph 5.1.6 of the consultation RAG3.12 pertaining to security should be seen in light of the length of operation and diversity of appointments of the small company, taking into account the established revenue stream and any bilateral security arrangements

with incumbent suppliers. We see strict application of the licence requirement as more pertinent to new entrants with no history of operation in the water and sewerage market. As a new entrant will have a relatively small forward projection of operational costs in the early years, we do not see this as a significant barrier to entry.