

26 April 2021

Tel 01480 323000

Dear Ofwat,

Our monitoring and reporting approach for new appointees – a consultation

I am writing in response to the consultation on Ofwat's approach to monitoring new appointments and the reporting requirements for new appointment and variation (NAV) companies. This letter and supporting annex represent our response.

We always seek to facilitate the effective operation of markets where they are in the long term interests of customers. In the NAV market our working practices, such as the use of dedicated account managers and application process, have been cited as examples of best practice for the wider industry.

The NAV market has developed rapidly in recent years, particularly in our region. We expect NAVs to account for around 8% of total new connections in our region in 2020-21 and that this will continue to grow. We now have over 100 NAV sites in delivery or connected to our networks. When these sites are built out there will be over 70,000 properties on NAV sites in our region alone. We believe our current approach is facilitating the development of the market in our region, and bringing benefits to customers.

The rate of growth means that it is important that Ofwat acts quickly to ensure it maintains adequate oversight and can track any emerging risks. We therefore agree it is appropriate to review NAV reporting requirements and Ofwat's monitoring of the service received by NAV customers. NAVs are providing an essential service to their customers and must meet the obligations that accompany such responsibility. The proposals outlined by Ofwat will gather data that helps inform the understanding of all stakeholders about the long-term benefit created by this market. We believe Ofwat could consider additional guiding principles for its monitoring framework, particularly transparency and equivalence.

Please do get in touch with us if you wish to discuss any aspects of our response further.

Yours sincerely,



Alex Plant
Director of Strategy and Regulation



Annex 1 – consultation question responses

1. Do you agree with the purpose and objectives we have set out? Should we consider other factors when developing our monitoring and reporting approach?

We believe the purpose and objectives outlined are appropriate. However, we believe Ofwat should consider additional principles of equivalence and transparency.

Equivalence is important in the context of growing NAVs as it may only be a limited number of years until some of the larger NAVs are similar in size to water only companies (WOCs). We therefore consider it appropriate that NAV's should be subject to a proportionate level of scrutiny as their market share increases. At this point it would be appropriate for NAVs to be subject to an equivalent level of scrutiny.

This additional level of reporting would in turn support achieving the principle of transparency. As NAVs increase in size it will be vitally important that a range of stakeholders, including government and the quality regulators, remain confident that the customers they serve will receive services at least as good as those provided by incumbent companies. By enabling this transparency all parties can understand the functioning of this market and ensure that appropriate regulatory oversight is maintained.

We believe that one of the objectives of the reporting should be to capture the benefits realised from the NAV market, over and above the 'no worse off' principle for customers served. As the market gathers pace this reporting will be an important evidence base for Ofwat to satisfy itself that the market is delivering long term benefits to water and sewerage service customers and not just short term benefit to developers.

2. To support our purpose and objectives, do you agree with the principle of strengthening reporting requirements for all new appointees that are distinct from those for incumbents?

We agree that this is an appropriate time for the reporting requirements to be strengthened. As outlined in our response to questions one and three, we believe equivalence of reporting is an important additional principle in the context of exponential growth in the NAV market.

3. Do you agree with the principle of introducing proportionate reporting requirements that are based on a 'tiered' approach? What should be the basis of these tiers?

The scale of regulatory reporting should be proportionate to company size and new entrants should not be dissuaded from entering the market by the cost of meeting regulatory obligations. Accordingly, we agree with the principle of a tiered approach to NAV reporting. However, the rationale for removing the £10m reporting threshold was not clear in the consultation document.

Exponential growth in the NAV market suggests that some NAVs may be equivalent in size to smaller WOCs in a relatively short period of time. We believe Ofwat should take this opportunity to specify at what point full reporting would apply to NAVs. Relying on the licence conditions means that a future policy decision must be made on when the full reporting would apply. However, if this were specified now all parties would have visibility of from when this would apply and NAVs would be able to prepare accordingly.

An alternative to setting tiers based on turn-over could be using the number of customers.

4. Do you have any comments on how we should approach the information we collect from new appointees?

As more customers are served by NAVs, the importance of visibility and transparency of NAV performance increases. We believe that Ofwat should consider including information regarding NAV performance in its regular publications regarding the industry's performance.

As noted above, the information gathered could form a valuable evidence base for a future review of the benefits delivered by the NAV market.

5. What are your views on how the quality and transparency of financial information in small company returns could be improved? How could this vary by tier?

The proposed approach appears reasonable. We believe it is vital that information is gathered to demonstrate the long-term financial viability of NAVs. In addition, the reporting should seek to ensure that there is transparency around compliance with Condition R of the instrument of appointment on the interaction of group companies.

6. Do you agree with our proposal to introduce an annual narrative requirement for new appointees subject to a company-based assessment? Should further information be included in the small company return?

The proposed approach appears reasonable.

7. Do you agree with the principle of a consolidated annual performance report that is accessible to all relevant stakeholders? For some measures, may another format be more appropriate?

Yes. A consolidated performance report would align with the proposed principle of transparency. Providing a one-stop shop for stakeholders to view NAV performance is increasingly important as their scale increases.

8. What should the annual performance report include as a minimum and which existing performance measures may be relevant to include?

In line with the proposed principle of equivalence, we believe NAVs should be reporting performance against the relevant common PR19 performance commitments (PCs). These PCs are designed to capture the areas of greatest value to stakeholders such as asset health, operational performance, resilience and environmental outcomes. Some PCs may not be relevant, e.g. treatment works compliance, but we believe the majority to be so. This enables stakeholders to understand NAV performance and whether their customers are no worse off than customers of incumbent companies. It may also assist in understanding the comparative performance of newer networks compared to older networks, and potentially help identify where incumbents may be able to improve their service to their existing customers.

It may not be possible to include NAVs within C-MeX. In this case we believe additional customer service performance could be captured, for example the metrics that CCWater use to monitor company performance.

It would also be useful to record some basic explanatory and asset data such as length of mains, length of sewers etc. Such data along with PC data such as leakage performance, may also be useful in streamlining the calculation of NAV bulk charges under the requirements set out in the latest guidance.

9. How may reporting requirements differ between new appointees and at what level should performance information be reported?

The tier of reporting may be a relevant consideration to how reporting requirements differ. Aggregated reporting may be more relevant for larger NAVs operating over multiple sites. This would be equivalent to the reporting provided by incumbents, which is regional. For smaller companies a more proportionate approach, either aggregated or site specific, would be preferable.

10. What should our approach be for ensuring there is sufficient assurance relating to the information provided by new appointees in their annual returns?

11. What should our approach be in terms of the board leadership, transparency and governance of new appointees?

For both questions 10 and 11 we believe the guiding principle should be equivalence to the requirements placed on incumbent companies. Without appropriate assurance and governance, the credibility of the reporting could be at risk. For example, we see no reason why the Boards of NAVs should not be required to make the same statement required of incumbents' boards about the accuracy and completeness of the information they have provided.

12. Do you have views on how and when changes to reporting requirements for new appointees should be implemented?

We believe it is important sufficient notice be provided to any companies about changes to reporting requirements to allow for robust processes to be established. However, given the rapid growth of the NAV market we believe it is appropriate for the larger NAVs to be providing additional reporting outlined by Ofwat from 21-22 onwards. This will require Ofwat to confirm its reporting requirements as early as possible in the current financial year.