



26th April 2021

Ofwat
City Centre Tower
7 Hill Street
Birmingham
B5 4UA

By email NAVpolicy@ofwat.gov.uk

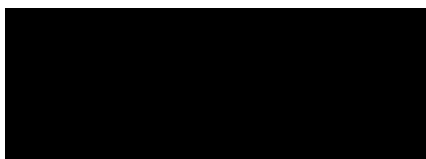
Dear Sirs

Response to consultation – Our monitoring approach for new appointees

I am writing on behalf of Icosa Water Services Limited (Icosa) in response to the above consultation that was published on 25th February 2021. We welcome the opportunity to contribute to the consultation.

Our responses to the specific questions raised in the consultation are set out in appendix 1. Please do not hesitate to contact us if you have any questions.

Yours faithfully,



Rob Bradley

Icosa Water Group.

Appendix 1.

Q1: Do you agree with the purpose and objectives we have set out? Should we consider other factors when developing our monitoring and reporting approach?

Icosa support the proposed purpose and objectives.

We would like Ofwat to consider some additional monitoring and reporting requirements on the incumbents in order to demonstrate that their behaviours are supporting the development of the competitive NAV market. For example, ensuring that incumbents provide timely customer / meter data, Condition 29 DW details and new connection services to NAVs. Ofwat may also wish to consider asking incumbents to report on how many new developments they commence and what proportion has been won by NAVs and the consent criteria i.e. to demonstrate that the incumbent board recognises their responsibility under competition law and can compare the level of competition performance against other incumbent regions. Significant regional differences e.g. Welsh Water v Southern Water need to be monitored and explained.

Q2: 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.

Q3: 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?

We agree with the principle of taking a proportionate approach but believe that a simple 2 tier NAV / Incumbent split should be adequate for the time being.

Q4: Do you have any comments on how we should approach the information we collect from new appointees?

There may be an element of fact finding in the first instance which may highlight data problems which need to be investigated and resolved. Early identification of reporting requirements and a timescale road map would assist.

Q5: 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?

We believe the current site level reporting requirements are becoming onerous and need to be aggregated at an incumbent or NAV level. We are not sure how much additional granularity can be provided but we are aware of one issue which Ofwat may wish to monitor through the annual reporting.

Under current NAV charging arrangements, incumbents collect their upstream income much sooner than they would have done had the NAV not been present. i.e. NAVs are funding upstream working

capital. We believe the extent of this will be apparent is NAVs report (a) the volume of services billed to NAV customers versus (b) the volume of services charged by the incumbent.

Q6: 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?

We are happy to consider this.

Q7: 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?

We are concerned that the NAV market is still too fragile to risk disclosing information publicly. Site numbers and customer numbers are still very low which in turn can create adverse / unrepresentative performance signals. The NAV market is becoming very competitive and sharing data is sometimes sensitive.

One of our main concerns is that incumbents have yet to finalise all the essential procedures and working arrangements necessary to enable the NAV market to work effectively and efficiently. We acknowledge that there has been a sudden growth in NAVs over the last two years and complications caused by Covid lockdowns have made this challenging.

We feel that these 'growing pain' issues need to be resolved first to ensure that the NAVs can report on their own performance, rather than having to report the symptoms of a new/emerging market.

We do not want to:

- divulge commercially sensitive information to competitors,
- force NAVs to declare failings caused by the upstream/downstream incumbent which could adversely impact on the NAV's brand reputation,
- Present low NAV penetration numbers which may deter house builders from choosing a NAV

Q9: How may reporting requirements differ between new appointees and at what level should performance information be reported?

Most NAVs would agree that they needed to take pragmatic short-term decisions in the early years to get the market rolling. Some of these decisions have created differences which were intended to be a temporary fix rather than a long-term commercial expectation.

Customer discounts are one such anomaly. They are not necessary now that the NAV market has taken off. They may have helped demonstrate that the customer was not financially worse off but they were more about giving house builders a 'sound bite' to incentivise them to risk choosing a new unproven NAV. They do not demonstrate a better service, just a small price saving for a handful of customers. Publishing the fact that some customers get discounts and others not will likely generate more customer dissatisfaction and confusion and may create an unrealistic market expectation where NAV's work with low margins in a competitive head to head marketplace.

The provision/availability of social tariffs is another example where NAV's needed to take a pragmatic decision to get the market going. NAVs had to accept large user tariffs in the early days so understood that they would need to bear the full cost of social tariffs until such time that the incumbent developed cost reflective NAV tariffs i.e. where the cost of social tariffs would be shared fairly between the upstream incumbent and NAV. In reality, all of the cost of social tariffs should be picked up by the

incumbent because the discount can only be offered through the commodity element. The cost of services provided by the NAV (capital and customer service) remain constant irrespective of customer demand. NAVs will only be able to offer a greater selection of social tariffs when the incumbents develop a fair mechanism in the NAV charges to enable them to do so.

We believe that NAVs should only report non-commercially sensitive data which relates to customer services within the NAV's control. Taking water quality as an example, water sampling may detect an operational issue, but this might be caused by the upstream incumbent, the NAV or the homeowner. The NAV's brand reputation should not be damaged by matters beyond its control.

Q10: What should our approach be for ensuring there is sufficient assurance relating to the information provided by new appointees in their annual returns?

We support a proportionate approach.

We believe an independent audit review of the new reporting arrangements will add an onerous cost for smaller NAVs but accept that this may become more proportionate in the future.

Providing a confirmation statement that the board has had oversight seems like a reasonable next step. We are not convinced that the disclosure of corporate structure is necessary.

Q11: What should our approach be in terms of the board leadership, transparency and governance of new appointees?

We support a proportionate approach.

The crucial concern should be that the NAV has the required expertise and experience to run a water and wastewater company and that someone with these technical skills and experience sits on the board and has oversight of service delivery.

Q12: Do you have views on how and when changes to reporting requirements for new appointees should be implemented?

As noted, we may need time to implement new procedures to capture any additional information. It will depend on what detail is required as to whether it will be possible or practical to apply changes retrospectively to information which is captured in the early part of the 21/22 financial year. Our suggestion would be to aim for full implementation with effect from 1st April 22.