

Monitoring and reporting approach for new appointees – a consultation

South East Water response

26 April 2021

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1. Introduction

Thank you for consulting on the proposed changes to the monitoring and reporting for new appointees.

Further reporting by new appointees would be a source of data on the operation of new sites ("last mile" infrastructure) and related retail services that would inform Ofwat's current policy in relation to new appointments and is likely to be useful for all stakeholders. We would prefer approaches that ensure reported data is easily comparable between new appointees.

Comparability with larger incumbents is likely to be more difficult to achieve as there are fundamental differences in the types and ages of assets being managed, the range of activities undertaken and regulatory targets. These differences would need to be explained where appropriate to ensure the data is not misinterpreted or misrepresented.

Observation on the context of the proposed changes

The proposals in this consultation has been prompted by the recent increase in the number of new appointments which can be linked to changes to charging rules in relation to new connection services. As the new appointment process is starting to evolve and take pace additional data will be important to inform long term policies in respect of the operation of "last mile-infrastructure" and related retail services and how this model may evolve as well as how the delivery of new connection services may evolve.

2. Responses to the consultation questions

QUESTION 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 agree with the policy objectives stated in the consultation document.

QUESTION 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 the reporting regime of new appointees should be proportionate. Due to differences in the regulatory regimes of larger undertakers and new appointees (and the

suspension of condition B for new appointees) reporting requirements will necessarily be different.

There should still be a minimum and proportionate level of reporting from any entity involved in the provision of the public water service. The publication of returns from 2020-21 is a positive development providing greater transparency in relation to new appointments.

We also support extending reporting by new appointees as suggested in the consultation which would be useful to apply current policies and to inform longer term policies.

QUESTION 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?

A tiered approach seems appropriate as it would ensure requirements are proportionate to the size of new appointees, also taking account of certain differences in activities. There should be a minimum level of proportionate reporting for any regulated entity that is involved in the delivery of the public water service.

QUESTION 4:

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

We support the approach suggested in the consultation document that data on new appointees' performance may be included in publications on financial resilience and service performance.

In respect of service performance in particular, even metrics relating to similar activities will not always be comparable between new appointees and larger incumbents due to differences in assets types, asset ages, range of activities and regulatory targets. Such differences should be clearly explained so that data is not misinterpreted or misrepresented.

The comment in the consultation document that information may be used by developers to select new appointees with good record on customer service is relevant to our comment. Comparison will be difficult as the performance of larger incumbents for services relating to the "last mile" and retail services to the relevant subset of customers is not separately reported. We would expect that the delivery of new connection services would be a major consideration for developers.

QUESTION 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?

We support the proposals described in the consultation documents (balance sheet, cashflow statement and net debt position, relevant narrative, related party transactions) for the purpose of monitoring the management of risks by new appointees. This would seem appropriate for larger new appointees.

New appointees will be best placed to comment on the proportionality of the proposed requirements and how they should apply to different tiers.

QUESTION 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?

New appointees using the company-based annual assessment are best placed to respond.

QUESTION 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?

We agree with a level of reporting that is proportionate and achieves an appropriate level of transparency for customers, stakeholders and regulatory purposes. This reporting would be a useful feedback loop in Ofwat's appointments for the operation of the "last mile" infrastructure and retail services. A consolidated annual performance report would make the information more accessible to stakeholders.

QUESTION 8:

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

We consider that the areas of performance mentioned in the consultation document would be appropriate: pcc, leakage, asset health and maintenance, customer service, affordability and vulnerability, emergency planning/response and the environment. Water quality is not referred to expressly in the consultation document but should be part of the reporting requirements.

We believe that collecting information in relation to the operation of the "last mile" infrastructure is important to be able to analyse data and trends to assess the model of operation of the "last mile" infrastructure promoted with the NAV model in the long run as

assets will age and as undertakers appointed through the NAV process increase the number of sites they operate. This may be useful to inform long term policies on how water supply systems (or different parts of the water supply system) may be operated and by whom.

Some data by age of asset for key operational measures (leakage, mains repairs, asset health and maintenance) would seem to be particularly useful to inform long term policies. Site-specific information would be also useful or at least by incumbent regions (as sites are linked to the wider supply system of incumbents and there may be some regional or site specific factors affecting performance).

The data requirements for retail services are likely to be different as these operations may be easier to centralise irrespective of the number of sites and location.

QUESTION 9:

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

Reporting requirements should be proportionate but there should be common requirements in relation to core aspects of the public water service that all undertakers irrespective of their size are required to deliver.

QUESTION 10:

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

An assurance statement by the Board of new appointees would be appropriate. A summary on data assurance processes would also be appropriate and could vary depending on the size and specific activities of new appointees to remain proportionate.

QUESTION 11:

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

We agree that imposing an obligation to meet the BLTG principles may not be appropriate for all new appointees. However a requirement to provide a statement on how new appointees have regard to the BLTG principles and/or the Wates principles would be desirable from providers of the public water service.

QUESTION 12:

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

A staged approach as suggested in the consultation document would seem appropriate subject to any specific transitional issues that new appointees may identify.

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