

26 April 2021

NAV Policy
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

By email: NAVpolicy@ofwat.gov.uk

Dear colleagues

CONSULTATION ON OFWAT'S MONITORING AND REPORTING APPROACH FOR NEW APPOINTEES

Thank you for the opportunity to respond to Ofwat's consultation on the monitoring and reporting approach for new appointees.

Incumbent appointees have a unique role in the provision of an essential public service. With that comes an important responsibility for the development of effective markets and delivery of better outcomes for customers, society and the environment. As the market expands, this responsibility is increasingly falling to new appointees also. As such, we agree that it is appropriate to review the regulatory framework to ensure that the framework remains not just an effective, but also a proportionate tool under which to deliver these outcomes.

We are supportive of a reporting regime that creates trust and confidence for all customers and stakeholders, and which also reveals the benefits and value the market is creating. However, we also acknowledge that requiring new appointees to adopt parity of reporting measures to those of incumbent companies would be unhelpful. We believe a reporting balance may need to be struck to avoid discouraging new appointees entering the market by placing a disproportionate reporting burden on smaller new appointees. That said, we feel it is important that customers of smaller new appointees have equal visibility of their service provider's performance in areas that directly affect them as customers of larger new appointees and incumbents.

We provide our responses to your questions in Appendix 1. If you have any questions please do not hesitate to contact me.

Yours sincerely



Sally Mills
Regulatory Director

D: [REDACTED]

E: [REDACTED]

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 Ofwat's principal objectives, and with the delivery targets. It is becoming increasingly important that new appointees' performance can be scrutinised, both to understand the value the market is creating, and the service customers receive from their provider. This transparency should in turn stimulating further market development.

We further support the provision of data and information in an accessible format which provides an easy point of reference for stakeholders. Given that most new appointees' customers have no choice in their provider, they should have the same rights of access and scrutiny that those of incumbent companies have, and importantly an equivalent opportunity to hold their service provider to account.

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?

To stimulate a dynamic market, it is essential that stakeholders can compare incumbent and new appointee performance, and make informed decisions secure in the knowledge that data and information has been collated on a consistent basis. Without consistency, the value of the data will be diluted, which creates the risk that the benefit to customers, stakeholders and the market evolution will be degraded. Therefore, whilst we fully support the principle of strengthening reporting requirements in a proportionate manner, we are also mindful that the benefit of doing so is not compromised.

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?

We agree that reporting requirements should be proportionate, and that objective metrics should be used to designate which tier a new appointee would fall in to. Ofwat refers to possible indicators as 'annual turnover or number of properties connected' but we suggest that both should be adopted. This would ensure that no class of customer is inadvertently excluded from the additional protections the regulatory regime will afford customers of higher-tier new appointees.

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

For the benefit of customers and stakeholders, and to support transparency and comparability, we believe that it is important for Ofwat to adopt a consistent approach to managing the information collected from both incumbents and new appointees. We therefore support the proposals to align the approach to monitoring, assessing and presenting information, and to enforcement.

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?

To promote comparability and transparency across all new appointees and incumbents reporting should, wherever possible, be on a consistent basis. This is not to say that the extent of the reporting should not vary across the range of companies, only that where data is produced it is possible to directly compare one company with another.

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?

While we do not have strong views on this subject, we would agree that any proposal that provides additional clarity and certainty is to be welcomed.

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?

It is important that as the market expands stakeholders and customers can easily compare the performance of both new appointees and incumbents, and, on an individual new appointee basis their compliance with commitments such as the 'no worse off' principle. We believe that a consolidated annual performance report would play a key role in facilitating this.

We propose that developer customers would also benefit from new appointees being required to report performance against the Water UK Developer Services metrics. Whilst incumbent performance is available via Water UK's website, the absence of new appointee performance data creates an information gap that arguably represents a market barrier as a result of developer customers being unable to make a fully informed decision on whether to engage a new appointee or the relevant incumbent to undertake work. Therefore, we believe that comparable new appointee data should be made available and that over time, this could be extended to include new appointees in D-MeX reporting.

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

While the provision of financial data is key, we are of the view that metrics that demonstrate the benefit (or otherwise) of a new appointee serving customers instead of an incumbent are also key to market development. We have previously supported the introduction of reporting of per capita consumption and site-specific leakage and welcome the proposals to extend these areas further. We therefore agree with Ofwat's proposed areas for inclusion in the report presented in section 3.3 of the consultation.

To ensure full comparability, transparency and accountability we support Ofwat prescribing specific measures new appointees should report against rather than allowing flexibility around what measures to provide. This specificity should extend to the requirement to provide narratives to explain performance. Furthermore, it is critical that consistency of reporting is ensured, and this consistency should extend to the assurance processes.

For customer protection we strongly agree that it is important that new appointees provide information on the range of support they provide to address affordability issues and that this is aligned with the RAGs for 2020/21.

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

We are cautious of the proposal to require different performance measures for differing tiers on the basis that this may preclude customers of smaller new appointees from obtaining information about their service provider. The regime should not impose an unacceptable reporting burden on smaller new appointees therefore we suggest that only areas that do not directly impact customers could be excluded, for example some financial / commercial metrics. Ofwat provides the example of service delivery, but to us this is an essential area for customers.

We support the disaggregation of data. We do not think that reporting at the level of the new appointee will reveal meaningful data, given that incumbents' performance can vary by region due to exogenous drivers and a new appointee with numerous sites could end up reporting a country-wide average. The most meaningful information would, we believe, be revealed if new appointees reported at individual incumbent level.

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

Assurance should be sufficient to provide all stakeholders with confidence that the data and information presented has been subject to robust scrutiny. To support this, we are of the view that all new appointees, regardless of their size, should provide a summary of the data assurance processes they have undertaken. As a starting point, such transparency would enable stakeholders to judge the level of confidence they can place on the data.

We believe that for comparability, all new appointee data should be subject to third-party assurance processes, but that those processes should be proportionate to the size of the new appointee. Setting a minimum level of requirement within the regulatory framework will allow this comparability across other new appointees and incumbents, which we believe is critical to ensure transparency and accountability for all.

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

We agree with Ofwat's views on the board leadership, transparency and governance framework. While the full framework may not be appropriate to smaller new appointees, for transparency it is important that stakeholders are able to understand corporate and board structures. We support Ofwat's proposal for new appointees to provide this information and to provide narrative in their annual reports on their governance arrangements.

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

For transparency, comparability and accountability across new appointees and incumbents at the earliest opportunity we believe that it is appropriate that the new reporting regime is implemented for 2022/23.