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T: [REDACTED]

By email: NAVpolicy@ofwat.gov.uk

26 April 2021

Dear Ofwat,

Re: Consultation on monitoring and reporting approach for new appointees

Thank you for the opportunity to review and provide feedback on Ofwat's proposals to update the monitoring and reporting approach for new appointees in order to help secure the future success of the new appointee market.

We have experienced significantly increased new appointee market activity in our region over the last two years as reflected in Ofwat's summary of the rapid growth in appointments being granted across England and Wales. To ensure the customers served by the market are seeing the benefits anticipated, we agree it is timely for Ofwat to re-evaluate its approach to monitoring the market and the associated reporting requirements for new appointees.

We have reviewed Ofwat's thoughts and indicated proposals and append our responses to the consultation questions to this letter below. We note Ofwat's intention to publish responses to the consultation on its website and we give our consent to publish this letter and appended pages.

Should you have any questions in relation to this response you can contact me by email at: colin.fraser@yorkshirewater.co.uk. We look forward to Ofwat's subsequent consultation on its detailed proposals by June 2021.

Yours faithfully,

[REDACTED]

Colin Fraser, Regulatory Strategy Manager

Yorkshire Water Response: Consultation on monitoring and reporting approach for new appointees (February 2021)

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?

We agree broadly with the purpose and policy objectives set out by Ofwat in the consultation in that we can readily see how they align with its' legal duties and strategic goals.

We also believe that improved visibility of financial, cost and service data from new appointees should help Ofwat better evaluate the benefits of the market in network adoption and operation and support where it designs policies relating to the new connections market or future price reviews for large incumbent companies.

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 with the principle of strengthening annual reporting requirements for all new appointees. We also agree these should remain distinct from the reporting requirements of incumbents given the different way the economic regulatory framework applies to incumbents in relation to price reviews and the performance commitments and associated outcome delivery incentive/penalty regime. The current reporting by new appointees is fairly limited in regard to its usefulness to a number of stakeholders and we understand is not universally reported by new appointees.

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 note Ofwat's proposals for a two-tiered approach for new appointees future reporting requirements. We have no comments to make where the threshold between the tiers should be set, but we would support a matrix of minimum reporting is structured to provide information useful to a range of stakeholders including CCW, incumbents, and developers that would apply to new appointees in either of the tiers.

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

We would be interested in the information Ofwat collects from new appointees being published by the new appointees themselves and used by Ofwat within its' existing monitoring financial resilience and the service delivery reports.

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 have no specific additions to make to Ofwat's proposals and the areas it considers new appointees should be mandated to disclose, including transactions with their respective group companies.

We do have a couple of observations for clarity:

- Under RAG 40.9, line S1.5 'All other sources of turnover for water and sewerage services that are not reported in lines S1.1 to S1.4', we believe this should include turnover the new appointee has earned from services or works carried out on behalf of incumbent companies, where these are considered as part of appointed business. For example, this could include turnover from meter reading activities carried out by the new appointee where data is provided to the incumbent under section 205 of the Water Industry Act and charged for.
- We would welcome clarity on whether new appointees in either proposed tier will be required to provide a statement within its narrative in respect of the assurance and governance it has put in place around any financial or service information provided in their submissions.

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 have no specific comments or additions to Ofwat's thoughts and proposals as laid out in the consultation document.

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?

Yes, we agree with the proposal to introduce a requirement for a single annual performance report to be published by new appointees, bringing together new and existing measures into a single document. We would welcome a consistent report format or structure to be used for easier comparison of information between new appointees.

Q8: What should the annual performance report include as a minimum and which existing performance measures may be relevant to include?

Ofwat has provided an explanation of some of the potential service and performance information that could be required for an annual performance report from small companies. We believe the areas referenced represent a broad range of information that

would provide many stakeholders with a comprehensive view of the performance being delivered by the new appointee as relevant and a demonstration of how they meet the no worse off principle. The information will also enable Ofwat to effectively monitor the activity and effectiveness of the new appointee market and confirm how customers are protected and greater public value is being delivered.

We have an additional request to help make the performance report more useable. Where information is provided for a specific new appointee site, we would like to see a reference made to the incumbent company region in which the named site is located. We have experienced times where site names provided when a point of connection request is raised can change once the site is fully developed. It would make cross referencing easier where tables are published with information by site, for the relevant incumbent company name or identification to be detailed alongside this.

Ofwat notes information requirements in future may cover metrics relating to affordability and use of social tariffs and supporting narratives. We believe this could be extended to cover information about the new appointees' customers who are in vulnerable circumstances. For example, new appointees could provide information on how many customers are recorded on their PSR registers for the reporting period. New appointees could also provide information on the number or percentage of void properties on their sites (in aggregate if too complex to do this at a site level with confidence).

We also welcome Ofwat's reference to any measures that are used in the future annual performance report should be aligned to existing definitions where possible. We agree this would support inter-company comparability and proportionality.

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

We agree with Ofwat's thinking where new appointees operate further up the value chain beyond retail and 'last mile' network operations that additional performance measures may be useful to incorporate into future reporting requirements. At present we do not have any active new appointees within our region who operate upstream of the relevant local network(s), but where a new appointee does operate other assets such as service reservoirs or treatment assets it may be useful to stakeholders to understand the new appointees performance over time against an associated measure of asset health, such as unplanned outages or remedial maintenance.

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

As we noted in our response to question 5, we would welcome transparency of the assurance approach undertaken by respective new appointees within their narrative statements supporting their annual reporting. We agree with Ofwat that any mandated

minimum assurance approach should be proportionate and should not inevitably follow that required of incumbent companies. We have no specific comments to make on whether financial or performance related submission should be subject to third-party audits.

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

We have no specific comments or additions to Ofwat's observations and proposals on greater transparency and board governance as laid out in the consultation document.

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

We would welcome such reporting to commence for the 2021-22 reporting year, with new appointees submitting their reports to Ofwat and publishing them on their websites in July 2022. We note the information new appointees are requested to provide may well change in the future as Ofwat continues to understand what it needs to monitor the market most effectively and stakeholders, either directly or through groups such as the industry working group on bulk charges, identify important information that they would find very valuable in supporting the market and delivering for customers the best outcomes.