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27 August 2021

Dear Sir / Madam,

**RE: Consultation on regulatory reporting requirements for new appointees in 2021-22.  
July 2021**

Firstly, thank you for the opportunity to respond to this consultation. As you may be aware, ESP Water will be applying to Ofwat for a NAV licence soon and it is likely therefore, that these reporting requirements for the year 2021/22 will apply to us. On this basis, we have provided a response to the consultation below.

The answer to your individual questions follows but in general, we believe many of the requirements in this document make the annual reporting requirements more onerous and not proportional to the size of NAV businesses. This appears to run contrary to one of the principal objectives of the review, which is stated in the February 2021 consultation, *“ensure that the regulation of, and interactions with, new appointees are proportionate to the risks to customers and size of new appointees”*.

We support fairness, transparency, and visibility for customers, but want to ensure undue and dis-proportionate obligations are not placed on smaller parties and the principles of effective competition in this sector are upheld. The consultation highlights the opportunity to reduce regulatory burden *“believe changes to the annual reporting process may also create opportunities to further reduce regulatory burdens and interactions in the medium term, such as in the licensing process”*. We welcome this objective and would ask that this is considered when finalising the reporting obligations.

I have included your questions in black below, with our responses in blue.

Q1: Do you have any comments on our proposed documentation approach?

*It makes sense to have a specific document for NAVs so that the RAGs are more relevant and can be seen to be proportional to the size of NAV businesses, so we support this proposal.*

Q2: Do you have any comments on the issues raised in our May and June 2021 consultations on the main RAGs?

We welcome the clarity on what is required in an APR for an incumbent as a useful guide in producing our annual performance reports as a NAV. Also, by separating out price controls for developer services we believe the true cost will be more transparent and assist Ofwat in gaining greater visibility of this area.

Q3: Do you agree with our proposals for which parts of the existing RAGs should apply to new appointees, our proposed adjustments, and the drafting in Annex A1?

Most of this detail is already included in statutory accounts and splitting out the allocation of costs could be onerous for a NAV. The proposal does not mention the NHH retail businesses of NAVs. Are there separate reporting requirements for these businesses?

The draft text in Annex A1 is helpful although the amount of information required seems onerous and not proportionate to the size of the NAV businesses.

Q4: Do you agree with our proposed approach for new appointees to produce an accounting policy and methodology note and the draft text in Annex A2

This seems fair and includes information already collected as part of our statutory accounts. The draft text in Annex A2 is helpful in describing what is required.

Q5: Do you agree with our proposed approach for allocating regulatory costs?

We agree that a simple split is a good idea so that accounting recording is minimized. We would however like to understand how NHH retail businesses will need to allocate their costs or whether that is treated separately?

Q6: Do you have any comments on the format and draft line definitions of the financial reporting tables for new appointees?

In general, we consider that Tables F1-F5 require a significant amount of information, which will impose onerous obligations on NAV companies. It is not clear to us that this is proportionate to the size of NAV businesses.

We have the following additional comments:

1. While many of the disclosures are in line with statutory reporting, where they differ there is substantial additional work required to re-cut and report the results.
2. Transactions with associated businesses: For businesses operating a centralised accounting function, we believe the limit of £10,000 for reporting transactions to be unduly low. In our own case it would potentially capture many hundreds of transactions, including payroll recharges.
3. The level of detail suggested in overhead cost reporting would provide commercially sensitive information such as bad debts, cost of outsourcing, services to developers. Provision of any such information would need to be protected and remain confidential, even in an anonymised form, if submitted?

Q7: Do you have any comments on the format and draft line definitions of the performance reporting tables for new appointees?

Completing one table per site seems overly onerous, given that we believe incumbents are not required to produce this level of detail by water supply zone or wastewater collection zone. It would seem more proportionate to provide overall company data, with details of the size of the sites broken down into water supply zones / wastewater collection zones in a separate table. The data capture and recording systems required to support the level of detail

expected and the reporting time to produce appropriate summaries appears disproportionate.

Q8: Do you agree with our proposed approach to unique identifiers?

Yes, this is a positive step although we would also support a national system such as exists within the energy sector. If that is not appropriate, we would welcome some guidelines to ensure consistency across the NAVs.

Q9: Should we introduce further granularity in reporting against the guaranteed standards scheme in the performance reporting tables?

Keeping the summary statement would be our preference rather than extra data fields in the tables. This should still provide our customers with the information they need to allow them to measure our performance.

Should you require any further information on any of our answers, please do not hesitate to contact me.

Yours sincerely,



ESP Water Managing Director