

Department for Environment, Food and Rural Affairs

Retail Market Opening – Open Water Programme

Completing the Assurance Letters: Advice Note

Change Control:

Version	Date	Description
1	13.10.15	Initial version published with Assurance Framework
2	15.01.16	Updated to provide additional guidance for the planning letter (letter 1)

This advice note has been produced to assist with completion of the Assurance letters and should be read in conjunction with the Assurance Framework and the letters themselves.

Background - the Assurance Process

- The Open Water Programme has always had a clear commitment to put in place a transparent process of continuous assurance. This is important to build mutual confidence amongst all those involved in the Open Water Programme.
- Formal letters of assurance are required at different stages to inform advice to the Secretary of State for Environment, Food and Rural Affairs, who will take the final decision on retail market opening in 2017.
- The assurance framework is based on the principle that: **“the party responsible for delivery of any part of the programme is also responsible for providing assurance over its delivery”**.
- Assurance will need to be provided by everyone with responsibility for delivering part of the Open Water Programme.
- This includes: all prospective market participants, [the Department for Environment Food and Rural Affairs](#) (Defra), the Water Services Regulation Authority ([Ofwat](#)) and [Market Operator Services Limited](#) (MOSL). Each of the organisations involved in opening the new market has clearly defined responsibilities:
 - Defra is responsible for setting the policy and implementing the legal framework and taking the decision about market opening;
 - Ofwat is responsible for the regulation of the market, such as licences, rules for charging and rules for behaviour and process ('codes');

- MOSL is responsible for the systems and processes which will make the market technically function; and
 - Market participants are responsible for working with MOSL to set up the Market Operator function that will handle switching and settlement; and each participant is individually accountable for ensuring they are prepared for market opening.
- **Each party that is responsible for providing letters of assurance should start by reading the assurance framework available [here](#).**

Market participant letters

- Letters are expected at all three phases of assurance from wholesalers and integrated incumbent retailers.
- New entrant retailers (including ‘associate licensees’) are only required to submit the final assurance letter (see Phase 3 below).
- Water and sewerage undertakers have a choice about whether to submit separate letters from their wholesale and retail businesses or a joint letter. It would be appreciated if you could let us know your intentions so we know roughly how many letters to expect.

Phases of Assurance and Timetable

- **All parties are required to provide letters of assurance at three key phases between now and retail market opening in April 2017.** This supports the principle of continuous assurance.
- The tiered approach to the assurance hierarchy means that, at each stage, deadlines are staggered to allow the recipients of the assurance letter to take account of their contents before providing their own letters of assurance.
- The Open Water Assurance project team will review the process after each phase, in line with the principle of continuous improvement, and feedback any learning to all those with an interest.

Phase 1 – Planning February 2016

Aim

- The planning phase letters require each participant to provide formal assurance that they have appropriate plans and governance structures in place in order to ensure delivery of their responsibilities.

Expectations

- As with all elements of the assurance process each party can choose the form of evidence they consider most appropriate to provide. The nature and source of the assurance for each piece of evidence chosen must be included in the relevant column of the 'Sources of Assurance' table in the planning letter itself.
- **For the planning stage it is expected that participants will provide a copy of their programme plans as part of this evidence.**
- Amongst other things, it is expected that these plans will enable participants to deliver the specific assurance components set out in sections 2 and 3 of their final assurance letter.
- **A summary of the relevant milestones towards delivering these components should be supplied at the same time. These will be used to track progress at the interim and final phases.**

Deadlines

- ✓ Market Participant Planning Phase Letter: 05.02.16
- ✓ MOSL Planning Phase Letter: 12.02.16
- ✓ Ofwat Planning Phase Letter: 12.02.16
- ✓ Defra Planning Phase Letter: 19.02.16

Phase 2 – Interim October 2016

Aim

- The interim phase letters require each participant to demonstrate that they have reviewed their progress against the milestones, set out alongside the planning phase letter, and to confirm whether they are on track to be ready for the opening of the market.

Expectations

- The interim phase letters require each participant to record progress against the specific milestones that they identified alongside their planning stage letter, in order to deliver the specific assurance components set out in sections 2 and 3 of their final assurance letter.
- It is not expected that participants will have completed all those milestones at the interim phase. Participants are accountable for accurately recording progress and for flagging any risks and issues that they consider may lead to slippage against the plan set out in the planning stage letter.

Deadlines

- ✓ Market Participant Interim Phase Letter: 07.10.16
- ✓ MOSL Interim Phase Letter: 14.10.16
- ✓ Ofwat Interim Phase Letter: 14.10.16
- ✓ Defra Interim Phase Letter: 21.10.16

Phase 3 – Final February 2017

Aim

- The final stage letter is the culmination of the assurance process. The purpose of the phased approach to assurance is to ensure that there are no significant surprises at this stage.
- The final stage letter requires each participant to confirm that they have materially completed their programme to prepare for implementation of the retail market and that all the interim milestones identified in their planning phase letter have been achieved (or will have been when the market opens).

Expectations

- For Market Participants this involves confirming that they have successfully completed all market entry requirements including obtaining licences, acceding to codes and completing market trialling successfully.
- All parties will need to confirm that they are not aware of any issue, for which they are responsible, that would prevent their successful participation in the market.
- The Final Stage Assurance Letter provides a detailed list of statements reflecting the specific components of the Assurance Framework that are relevant to each class of participant. These relate to the roles and responsibilities set out above. As noted above, the signatories will need to have identified the form of evidence which they consider enables them to provide the required assurance.

Deadlines

- ✓ Market Participant Final Phase Letter: 03.02.17
- ✓ MOSL Final Phase Letter: 10.02.17
- ✓ Ofwat Final Phase Letter: 10.02.17
- ✓ Defra Final Phase Letter: 17.02.17

Issues to consider

Evidence

- At each stage in the process each participant will need to consider what form of assurance is most appropriate to provide the signatories (their Board, Executive, and Audit and Risk Committee or appropriate equivalent) with the level of confidence they require in order to provide the required assurance.
- The nature of assurance should be categorised as one of:
 - External, independent assurance or expert analysis
 - Internal expert or peer review
 - Internal process or internal data audit
 - Management review
 - In-team peer review
 - Self assessment
- In order to ensure the coherence of the assurance process all participants are advised to review all the components set out in the final phase letter at the beginning of the process. They should ensure that these are factored into the plans provided as part of the planning phase. The specific milestones identified at the planning stage will subsequently be tracked through the interim and final phase letters.

Risks, Issues or Slippages and associated action plans

- The signatories to the assurance letters at each stage are asked positively to state they have not identified any matters which have had or are expected to have a significant impact on their readiness for retail market opening.
- Where this is not possible, for any reason in relation to any component of the assurance framework, they will have the opportunity to set out the matters that they expect to have a significant impact on their readiness for retail market opening. They will then be required to set out appropriate action plans for mitigation/recovery alongside the letter of assurance.
- Participants will also have the opportunity to set out any matters they wish to highlight which they expect to have a significant impact on the implementation of the retail market as set out in the overall programme.

Governance

- One of the key objectives of the assurance framework is to ensure that all programme participants put in place effective governance structures with:
 - clear responsibilities and accountabilities for programme delivery,

- management of risks, issues and dependencies,
 - regular reporting of programme status; and that
 - sufficient resources with the required capabilities are assigned to the programme to ensure successful delivery on the part of that organisation.
- **In order to ensure effective engagement with the assurance framework on the part of both Board and Executive, early discussions on the form of assurance required and the nature of the evidence considered appropriate to support it, should be scheduled as a matter of priority.**

Important notes on the company letter submission process for phase 1

- We are expecting letters and evidence to be submitted by email by 4pm on the due date and have set up a joint programme mailbox for this purpose: AssuranceLetters@ofwat.gsi.gov.uk. Please do not send paper copies by post – only emailed submissions will be accepted.
- PLEASE NOTE: emails to this mailbox have a limit of 25MB so you may need to zip your attachments. If you have problems with this please get in touch.
- In the letter please include a contact name and details (such as a mobile phone number) in case we need to contact you during the assurance letter period.
- There is no need to copy your letters to individuals in the three partner organisations – the above mailbox will be managed jointly.
- Letters addressed to more than one recipient (e.g. market participants' letters to MOSL and Ofwat) need only be sent to the mailbox once (per phase of assurance) – multiple copies are not required.
- Please be assured that your data will be protected and company submissions considered confidential.
- If you do not plan to submit a letter / evidence at this stage of the Assurance Framework but plan to take part in the future stages, please let us know at AssuranceLetters@ofwat.gsi.gov.uk.

Feedback and future timeline

- We will confirm receipt of letters as they arrive.
- We will not be able to give feedback on individual assurance letters but will publish a summary progress report as per the published Assurance Framework.
- We will provide an update through the Workplan Review Group following each phase.

- The Secretary of State will receive advice based on all the outputs of the Assurance Process towards the end of February. We will publish a summary progress report early in March.

For further help:

If you have any questions about this process, please feel free to contact your MOSL portfolio manager, drop us a line at AssuranceLetters@ofwat.gsi.gov.uk or get in touch with one of the project team. Details of the main contacts per partner organisation are included below:

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