

07/16 Open Water programme update

July 2016

Open Water: Strands of Assurance Activity

As is usual in large multi-partner delivery programmes, the Open Water Programme has established a number of complementary strands of assurance activity to build confidence across all the relevant parties ahead of market opening in April 2017. This note sets out the purpose and aims of each of these strands of activity, which are summarised in figure 1 below.

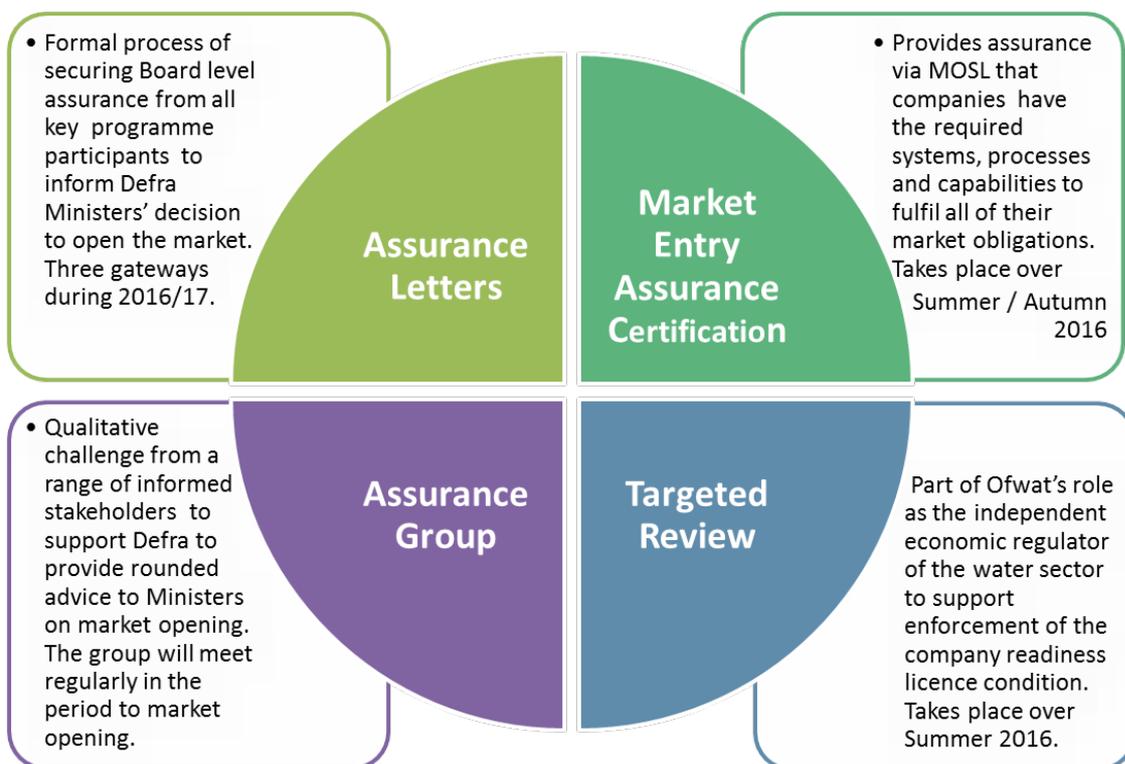


Figure 1: Open Water strands of assurance activity

1. Formal Letters of Assurance

To enable the market to open everyone involved in creating and running the market will need to complete programmes of work and be able to demonstrate that they will be ready when the market opens. The Secretary of State for Environment, Food and Rural Affairs requires formal assurance that all parties are on course for retail market opening in April 2017 at regular intervals throughout this process.

In early 2015 the Open Water programme commissioned Deloitte to work with stakeholders on the development of an Assurance Framework in order to provide a structured approach to the provision of this assurance. This was adopted formally by the Retail Market Opening Management Group at their meeting in July 2015.

The principle underlying the Assurance Framework is that every party responsible for delivery of any part of the programme must provide assurance over its delivery.

Phase 1 of the Open Water Assurance Framework was completed on 19 February with Defra submitting its letter of assurance to the Secretary of State. The process allowed the programme and the Secretary of State to draw confidence from the evidence provided that the required plans, resources and risk management were in place across the industry, and across the Open Water programme. Phase 2 of the assurance process will take place in October when all participants will be asked to report on progress against the plans provided at Phase 1.

2. Market Entry Assurance Certification

Market Entry Assurance Testing and Certification is the process by which market participants demonstrate that they have the required systems, processes and capabilities to fulfil their market obligations and are ready to enter the market.

All market participants seeking to participate in the new retail market are required to undertake this process and achieve certification. It is a prerequisite for the granting of a Water Supply and Sewerage Licence (WSSL).

Market Entry assurance is led by MOSL. This process opened on the 5th of April 2016 and will continue into the new market.

3. Targeted Review

Ofwat uses targeted reviews where it considers that there are risks to customer trust and confidence. A targeted review is a detailed examination of the sector's approach to a particular topic. They use this tool where:

- there are significant concerns identified by stakeholders; or
- there is a high risk to customers or other stakeholders; or
- there is an opportunity for major benefits for stakeholders.

Ofwat is currently undertaking a targeted review into how companies are responding to their planned licence condition on market readiness. This aims to provide Ofwat with confidence that companies are complying with this licence condition, and build confidence about the sector's preparations for market opening.

Ofwat has identified three areas of risk areas in relation to opening the market:

- Level playing field – how to build confidence that appointed companies will not discriminate in favour of their own services and customers;

- Action by market participants to improve their systems and data quality;
- Whether companies understand their obligations under the codes and whether they are ready to deal with different ‘customer journeys’.

To understand the preparations companies have made in these areas Ofwat has appointed an independent contractor to gather information from all market participants to identify how companies are addressing these risks. Having done so, they will provide input into Ofwat’s decision as to which market participants to target for a more detailed review (based on risk to readiness for market opening). The contractor will provide a final report in August 2016.

4. Defra Assurance Group

Defra set up the independent Assurance Group to support it in the provision of advice to the Secretary of State to inform the market opening decision. The group met for the first time in March 2016. The group’s Membership and Terms of Reference are published on the Open Water Website along with summary notes following each of the group’s meetings.

The Assurance Group provides a route for external scrutiny, challenge and debate from a broad range of stakeholders and a forum for representatives from the UK and Scottish Governments, market participants and customers to join together and draw on each other’s interests and experience.

The group is tasked with advising Defra on any material issues which it believes could impact on the achievement of market opening in April 2017. It will formally report its observations to Sarah Hendry, Director at Defra, via a series of Chair’s letters – the content and format of which will be agreed by the group. Defra remains accountable for the advice that will be provided to the Secretary of State.