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Mr Keith Mason
Senior Director of Finance and Networks
Ofwat
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Date: 23 January 2013

Enquiries: 01443 452359

Our Ref:

Your Ref:

Dŵr Cymru's response to Ofwat's Section 13 Notice dated 21 December

I refer to recent correspondence between us regarding Ofwat's proposed modifications to licences. As you know, the Board of Dŵr Cymru was unable to agree the previous proposals made by Ofwat in the two previous Section 13 Notices over the last thirteen months, principally because of its concerns that the wide ranging nature of the proposals and the uncertainty that they created could be detrimental to the interests of our customers, putting at risk the low cost efficient financing of the Company which is crucial in delivering the best possible value for money to our customers. As we have set out in our previous responses to proposals for change, given the ownership structure of Dŵr Cymru's parent company, the customer interest is our only consideration. This interest is also concordant with the duties of Ofwat itself.

Throughout this process, our consistent position has been that it should be possible to agree a narrower set of Licence changes necessary to enable Ofwat to carry forward the 2014 Price Review as planned. We would then always be ready to consider potential further specific changes where these hold out a good prospect of improving outcomes for our customers.

In this context we welcome the third set of proposals made by Ofwat, which focus on changes necessary for PR14, and are willing to accept these proposed changes.

However, as we have discussed, there remains one outstanding issue of concern for us, namely the context for the proposed new Condition B.18.1 (the "all reasonable endeavors" clause). We and others believe that this clause could be read as implying a direction of travel in terms of future Licence changes towards greater sub-division of price controls and potentially material change to the basis on which assets are remunerated. Our concern is that this direction of travel would not be consistent with the current policy of the Welsh Government towards the water sector and may not be consistent with the

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We welcome correspondence
in Welsh and English.

Rydym yn croesawu gohebiaeth yn
y Gymraeg neu yn Saesneg.

future legal framework as this applies to Dŵr Cymru. We have noted that similar concerns have also been raised with you by the Welsh Government in their letter of 17 January 2013.

We have had useful discussions over the last week as to how this concern might best be addressed. We note the terms of the letter from Ofwat of today's date which sets out how Ofwat will apply the terms of the proposed new licence condition B18.1 in the context of companies whose area of supply is wholly or mainly in Wales. Further, we have discussed the desirability of putting wording into the Licence itself which would make it clear that condition B18.1, and the wider Licence obligations on us, should be interpreted to take account of relevant Welsh Government policy and the legal framework in Wales and England as it applies to us. We remain of the view that it would be preferable also to include wording to this effect in the Licence itself, and welcome the commitment from Ofwat to discussing this issue further with relevant parties, with the aim of publishing a further Section 13 Notice in due course so as to enable such wording to be included.

On the basis of the assurances given in the letter of today's date, and in particular the commitment to considering further wording in the Licence, the Board has confirmed its acceptance of Ofwat's proposals to modify the Licence, and we look forward to working further with Ofwat on this matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel', written in a cursive style.

Nigel Annett
Managing Director