

Amgylchedd a Datblygu Cynaliadwy  
Environment and Sustainable Development



Llywodraeth Cymru  
Welsh Government

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Ofwat  
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Dear Stephen

We would like to thank you for providing us with an opportunity to comment on the Ofwat consultation entitled Setting price controls for 2015-20 – framework and approach. We would also like to thank you for your engagement with us through out the consultation. Our initial views on the proposals within the consultation are set out below.

The Welsh Government acknowledges the significant change to the water and sewerage industry since privatisation 22 years ago and the challenges ahead set out by Ofwat. These include climate change, population growth, rising consumer expectations and affordability issues and compliance with stringent environmental standards. We recognise these challenges are driving a need for change and a need to deliver sustainable services in the future.

In addition we recognise the aim to simplify, strengthen and target the incentives the companies face and provide greater focus for companies to deliver the right outcomes.

In principle, the Welsh Government is broadly supportive of a number of the proposals in the consultation. We also acknowledge that the methodology is still being developed in some areas and respect that the details are not available at this time.

Following our specific views on the consultation:

### **Sustainable Development and the Ecosystem Approach in Wales**

You will be aware that the Welsh Government is committed to ensuring sustainable development is at the heart of everything we do. We do this by acting in the long term interests of the people of Wales, and through taking steps to understand different factors that are vital to their long term quality of life. In making choices for the future, we focus on the social, economic and environmental well-being for people and communities, reinforcing our values of fairness and social justice and the importance of the culture in Wales.

In order to ensure sustainability of our natural resources in Wales, the Welsh Government is adopting an ecosystem approach to water management and we will be expecting future regulation to be set in that context for Wales.

### **Customer Challenge Groups**

Following the meeting between the Welsh Government and Ofwat officials on 15 March we are keen to ensure that customer accountability plays a key part in the whole structure of company Business Plans. It is key that the Customer Challenge Groups have a clear understanding of their roles and responsibilities until the end of the price review process.

### **Retail Controls**

We responded to the consultations on wholesale incentives and retail controls on 26 November 2012 and our position remains the same.

On the retail side we would like to reiterate our support for adjustments to Average Cost to Serve (ACTS) in the retail controls. We believe that it is crucial that companies are able to propose adjustments to ACTS within their business plans for any factor that can be shown to:

- Have a material impact on their costs
- Be beyond management control; and
- Impact the company in a materially different way to other companies

This will ensure that regional factors and socio economic issues outside the control of companies can be taken in to consideration and ensure that companies are not unfairly treated as a result of such issues.

### **Wholesale controls**

On the wholesale side we would like to reiterate our view about the importance of the RCV framework in ensuring companies can continue to attract low-cost financing in the parts of the value chain that are relatively asset intensive.

### **Change protocol process**

The Welsh Government has concerns about your proposals for the removal of the change protocol process. If work to comply with statutory environmental obligations or a change in permit standards is required during the price control period, we believe that it is essential there would be an allowance for this in the prices set.

### **Water Framework Directive**

We would like to request that the new regulatory regime allows companies to meet the Water Framework Directive (WFD) requirement as cost effectively as possible and hence this will ensure that companies include and are allowed to include suitable outcomes and financing for this in their business plans that allows them to meet the WFD requirements.

## **Timescales**

We note and understand the reason for the tight timescales around the methodology change and price control period. However, we would like to highlight the pressure this puts on companies to develop their business plans. At the time of writing Ofwat had not given clear instructions on how companies are expected to take the new process forward. We would like to request that the business plan consultation is sent out on time and with a clear structure that allows companies to embed the new methodology as soon as is practically possible.

## **Regulatory framework for Wales**

We acknowledge that Ofwat are still finalising the regulatory framework that will encompass the efficiency challenge for non-household customers in Wales. We would be grateful if you could share details with the Welsh Government and water and sewerage companies wholly or mainly in Wales as soon as possible so that we have sufficient time to consider the proposals. We would also request that any impact assessment being carried out is fully reflective of the different regulatory regimes in England and Wales and it should also highlight the specific impacts for Wales where appropriate.

Finally, we would welcome a continuation of the engagement process with the Welsh Government throughout the price review process and beyond. This will ensure that Welsh Government policy is reflected within the changing regulatory environment.

We would be happy to discuss any of the points we have raised in this letter.

Yours Sincerely

Olwen Minney  
**Head of Water Branch**

Emma Edworthy  
**Head of Regulated Markets**