

Amgylchedd a Datblygu Cynaliadwy
Environment and Sustainable Development



Llywodraeth Cymru
Welsh Government

Dylan Spedding
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Dear Dylan

The Welsh Government welcomes the chance to respond to the Ofwat consultation on its forward work programme for 2014-15.

This is a high level document which provides a broad overview of Ofwat's work areas, most of which we are familiar with from during the course of our mutual continuous engagement. In terms of the general content of the work programme itself, as it applies to Wales, there is very little at this level that might be viewed as novel or contentious. Where specific issues have however arisen with regard to detailed elements of the work programme we have responded to Ofwat previously.

We acknowledge that Ofwat, and the water companies are working to a very challenging timetable during the PR14 Price Review period. What follows below are some general remarks upon some elements of the project content of the work programme itself and some wider observations to which we would welcome your responses.

2014 price review

You will be aware from previous conversations between Welsh Government officials and Ofwat, as well as most recently from the meeting between Cathryn Ross and the Minister for Natural Resources and Food, that we have been supportive of Ofwat's outcomes based approach to the current review.

We will shortly be sending you a letter setting out the views of our PR14 Forum and that of the Welsh Government in relation to how Dee Valley Water and Dŵr Cymru Welsh Water have taken account of Welsh Government policy throughout the

Price Review process in the development of their business plans. I will not pre-empt the contents of that letter here but will defer any further remarks on the wider process so far to when that letter is issued.

Choice and trading arrangements

This is not a Welsh Government policy and we are not taking forward the relevant proposals in the UK Water Bill at the present time. As part of the Price Review process, we have asked Ofwat to take account of the different regulatory requirements in Wales. You have demonstrated your commitment to this in areas such as in their design of a separate Service Incentive Mechanism for Wales for non-household customers. It would therefore appear to be something of an oversight that these differences and your activities in response are not referred to in this section of the document.

Board leadership, transparency and governance

We would be grateful to be kept updates in developments in this area in relation to wider company best practice and in relation to any areas of concern you might have in relation to the Wales based companies.

Licence review

We responded to your consultation on proposals to modify companies' licences back in late November, in which we sought your assurance that any increase in costs to facilitate retail or upstream market reform would not be funded by water and sewerage undertakers operating wholly or mainly in Wales as this is not the policy of the Welsh Government. I would be grateful to receive your written response to provide assurance of this.

Thames Tideway

We commend your aspiration that the work carried out in this area should be used to inform new approaches to large projects that produce better outcomes for customers across both England and Wales and note that the financing of this project is being recovered separately from Thames Water.

Demonstration of Welsh Government Policy within the programme

Although the opening abstract and foreword make explicit reference to the programme addressing the regulatory requirements of both England and Wales, the awareness demonstrated of current Welsh Government policy in the document is not particularly strong.

Whilst I accept that the Welsh Government's social and environmental guidance to Ofwat is yet to come into force, other policies remain extant. Ofwat has been fully engaged during the development of the social and environmental guidance and at the request of Ofwat, officials composed a list of high level priorities, in a similar approach to that undertaken by Defra in the design of its own strategic statement and social and environmental guidance position, in order to help enable Ofwat to more easily refer to our policies.

Relevant and extant policies included in our social and environmental guidance include (but are not limited to):

- Welsh Government Programme for Government
- Tackling Poverty Action Plan – 2012– 2016
- Written Statement – The Natural Environment Framework ‘A Living Wales’
- Strategic Policy Position Statement on Water – 2011
- Written Statement on Water Policy in Wales – 12 December 2011
- Written Statement – Shaping a more Prosperous and Resilient Future – Autumn 2013
- White Paper – Towards the Sustainable Management of Wales’ Natural Resources – Consultation on proposals for an Environment Bill – 23 October 2013 – 15 January 2015
- Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010

In the section ‘Changes to our work programme and budgets’, Ofwat notes that its programme could change to include new responsibilities ‘in light of new Welsh Government policies and legislation’ such as ‘ensuring that companies in Wales can support customers who struggle to pay their bills’. Naturally Ofwat are already aware of our ‘Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010’ and at present we are not giving any consideration to further regulations in this area such as mandatory tariffs.

New strategy for Ofwat

We welcome and commend your intention to consult with stakeholders on a new draft strategy. I am aware that Ofwat officials have communicated their eagerness to start engaging with the Welsh Government in the development of this new strategy as soon as possible in order to better reflect Welsh priorities going forward. I am keen to ensure that we work with you closely as you look to refresh your strategy and to better reflect our current policy position with its emphasis on tackling poverty, green growth, resource efficiency and resilience.

Conclusion

We are grateful for this opportunity to comment upon your draft forward work programme for 2014–2015, and for this early opportunity to start developing our thinking around the priorities we would like you to include in your strategy in order to help contextualise where you will need to regulate differently in Wales.

As your consultation document notes, we will soon be publishing our draft Water Strategy for Wales, which will set out at a high level some of the ways in which we are seeking to improve water and sewage services, for both businesses and households in Wales. I am eager that we should work closely with you in the development of your strategy and to ensure that we continue to enjoy an increasingly productive relationship going forward.

A handwritten signature in black ink, reading "Prys Davies". The signature is written in a cursive style with a large initial 'P' and 'D'.

Prys Davies
Deputy Director: Energy, Water and Flood