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Dylan Spedding
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12th February 2014

Dear Dylan

Ofwat Forward Programme 2014 -15 – draft for consultation

We welcome the opportunity to comment on the recently published consultation on your Forward Programme.

The document identifies the challenges ahead for the water sector, which will include wider societal challenges such as flooding which may involve water companies being asked to extend their activities beyond their historical remit. We fully support the development of a new long-term strategy and a vision for Ofwat, that will enable Ofwat to play its full part in helping the sector to meet those challenges and to deliver the best possible outcome for our customers. We note that it is your intention to develop the strategy over the next 12 months and that you intend to fully engage with stakeholders during this period. This is a good opportunity to build on experience and what has been achieved to date and, with customers at the forefront of thinking, we look forward to learning more about the programme and to working with you towards achieving our common goals.

We particularly welcome the emphasis placed on “dialogue” in the programme. We are keen to make sure that the channels of communication are clear so that we can engage effectively with you at different levels as you formulate and implement the “New Strategy”. In this context, we note that there have been significant changes in key personnel within your organisation and we feel that part of the strategy should embrace developing relationships at all levels of our respective organisations, including at practitioner level.

We note that the prominence afforded to the new market arrangements for England and recognise that this will occupy much of your attention in the coming three years. It follows that the more secondary task of fine-tuning the existing WSL regime for the residual Wales market will inevitably be a lower priority. However, we will be working during the coming year on what changes need to be made at a company level to ensure that the post-2017 retail market for water supply in Wales works well and will be happy to work with you on this task.

The passage of the Water Bill and the likely implementation of the different codes will present fresh challenges and, whilst we anticipate that there is likely to be a great deal of commonality in approach, there may be situations where the respective government policies differ and this could impact on the regulation of those companies operating wholly or mainly in Wales. In these

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circumstances, we would anticipate having open and constructive dialogue with both yourselves and the Welsh Government to identify and address any relevant issues.

Effective consultation and development work will be particularly important over the new codes which will be needed to successfully implement new market mechanisms. These codes will need to be sufficiently detailed and clear to ensure that the opening of new market activities proceeds smoothly and delivers improved outcomes for customers. Equally, we welcome the priority that is now being afforded to speeding up casework performance, with particular regard being given to those cases which will set important regulatory precedents.

Whilst we recognise that there is a need to keep licences under review we would urge caution around including "licence review" proposals in the forward programme at this stage. In the context of everything else that is happening at the moment and to ensure that any review is conducted properly and with a full understanding of the consequences, we would query whether this is a priority now and this may be something that is better left to the end of the decade, by which time the upstream market arrangements in England have been put in place and we will be better placed to conduct this review.

We recognise the emphasis placed on Board leadership, transparency and governance, having already pledged our support and confirmed that we apply the principles that were outlined in the September consultation. Transparency is a matter of great importance for companies and stakeholders and it is good to see the prominence given to this in the consultation. We also believe that Ofwat can play a particularly useful role in the dissemination of high quality comparative information, to promote the adoption of best practice across the sector. Ofwat and the companies should be able to use "social media" techniques amongst industry and regulator practitioners, to promote greater consistency in the reporting of regulatory information, which could make such benchmarking even more useful in future.

Given the significant real increase in Ofwat's annual expenditure over the last decade, we agree that it is more important than ever for the credibility of independent economic regulation that value for money has demonstrably been achieved and were pleased to see reference to this in the section "Financing the Delivery of our Work Programme".

We hope that you find the comments in this response constructive. We would of course be very happy to expand on these points or engage in further discussion if required.

Yours sincerely



Mike Davis
Acting Finance Director