

Board Leadership, Transparency and Governance Consultation
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

Date: 17 August 2018

By email: FinanceAndGovernance@ofwat.gsi.gov.uk

Dear Sirs

Consultation on revised Board Leadership, Transparency and Governance principles – updated response

Thank you for the opportunity to respond to the consultation on governance issues. This is the response from Dŵr Cymru Welsh Water to Ofwat's consultation on reviewing and updating its board leadership, transparency and governance principles. Dŵr Cymru Welsh Water is owned by Glas Cymru Holdings Cyfyngedig, a not-for-shareholder holding company that acquired Dŵr Cymru Welsh Water in 2001. Dŵr Cymru Welsh Water exists entirely for the benefit of our customers. Any surpluses we generate are applied to the benefit of our customers, in such as supporting social tariffs and additional investment for service improvements.

In general, we have no difficulty with the content of any of the principles set out in Ofwat's consultation paper, and we are in any event committed to transparency and good governance. Our constitution reinforces this. In our Licence, Condition F6A.5A includes a commitment to "...conduct the Appointed Business as if it were substantially the Appointee's sole business and the Appointee were a separate public limited company", including a reference to compliance with the UK Corporate Governance Code as if we were a listed company. Condition P refers to a requirement to have a majority of independent Non-Executive Directors "who shall be persons of standing with relevant experience". Since 2001 we have had a strong and challenging Board with a significant majority of independent Non-Executive Directors (currently Chairman plus three Executive Directors and six independent Non-Executive Directors).

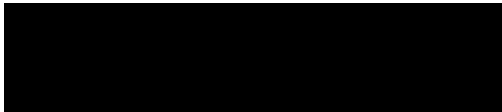
The Board is a joint Board of Directors of Glas Cymru Holdings and Dŵr Cymru, a unified Board which reflects the commonality of interest between the holding company and the operating company, so the interests of the Appointed Business are central to the Board's strategy without the need for a separate operating company Board of Directors. We consider that the unity of interest between the operating company and the holding company Board means that we meet the proposed principle for the operating company to be able to set its long term direction, and to make all decisions regarding its regulated activities, as though these are substantially its sole business. The Board meets regularly and is held to account by the Glas Members to ensure it stays true to its core mission of providing high quality essential services to our customers at the best value. There are currently 50 independent

Members, who are drawn from across our supply area, and who perform the governance roles carried out by shareholders in other companies.

We are currently considering the revisions to the UK Corporate Governance Code which will be implemented for all listed companies (and for us, by virtue of the licence requirement) from 2020. One option would be to include a licence condition mandating compliance with the UK Corporate Governance Code (on a “comply or explain” basis) which would seem to achieve Ofwat’s aims of requiring leadership, transparency and governance from regulated companies, and this solution would avoid the risk of overlapping or potentially inconsistent corporate governance requirements while retaining flexibility for companies as to how the principles of good governance are implemented in practice. In the event that Ofwat did not consider it practical to adopt a licence condition referring to the whole of the UK Corporate Governance Code, it would still streamline and simplify the compliance burden if relevant definitions within the Code could be adopted by reference from the Ofwat Guidance or Licence Condition.

We would be happy to discuss the issues arising further if that would be helpful.

Yours sincerely

A large black rectangular redaction box covering the signature area.A small black rectangular redaction box covering the name of the signatory.

General Counsel & Company Secretary