



**Cyfoeth
Naturiol
Cymru
Natural
Resources
Wales**

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7 May 2019

By email: [REDACTED]

Ms Rachel Fletcher
Chief Executive
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Dear Rachel,

Following the recent launch of Ofwat's draft vision and strategy for the water sector and ahead of the PR19 draft determination in July, I am writing to thank your staff for their ongoing engagement with Natural Resources Wales (NRW). This continued dialogue is important to both our organisations in terms of building a common understanding of current and future challenges for the water sector and the development of sustainable solutions. I think it would be useful for us to meet and have asked my office to work with yours to find a suitable date.

At this important point in the current PR19 price review, I would like to take the opportunity to set out NRW's key concerns in relation to water and sewerage company planning in Wales.

Under the Environment Act (Wales) 2016 all public authorities, including water companies, have a duty to maintain and enhance biodiversity and in so doing promote the resilience of ecosystems. The Act also emphasises NRW's role as the principal regulator for natural resources in Wales, including the provisioning and regulating ecosystem services associated with water abstraction and sewage treatment. Our purpose is to pursue the sustainable management of natural resources in relation to Wales and apply the principles of sustainable management of natural resources in the exercise of our functions. This purpose is nested within the wider purpose of sustainable development as defined by the Well-being of Future Generations (Wales) Act 2015, which also establishes well-being goals (Appendix A).

Wales' legislative framework is the context for PR19 in Wales, and in 2016 we welcomed Ofwat's input to a Wales workshop exploring opportunities for regulators and companies to respond to this *new* challenge. NRW's response is to seek a balance between efficiency, resilience (or redundancy), and fairness (including inter-generational). Through the exercise of our functions we seek to minimise social costs whilst retaining sufficient redundancy within the system to accommodate both foreseen and unforeseen perturbation. We promote this approach in our participation in the Customer Challenge Groups (CCG) for both Dŵr Cymru Welsh Water and Hafren Dyfrdwy, and in our collaboration with them in developing a National Environment Programme to meet their statutory duties (including S6 of the Environment Act [Wales] 2016). NRW is also a statutory consultee and advisor to the Welsh Government concerning water company water resource management plans.

Following company responses to the Initial Assessment of Plans, we would like to confirm our support of the environmental outcomes and ambition proposed in Dŵr Cymru's business plan. Our summary response submitted by their CCG is provided in Appendix B for information. In particular we welcome Dŵr Cymru's emphasis on solutions that deliver multiple long term benefits, supporting more resilient infrastructure, aiming to address the root cause of failure, including sustainable drainage, catchment measures and behaviour change campaigns. We believe these types of approach offer best value in the long term, and are in line with Wales' legislative framework, that places sustainable development at the heart of public decision making.

By way of example, the proposal by Dŵr Cymru to address impacts upon shellfish waters in the Menai Strait adopts a novel approach to avoid the need for conventional storage and provide a 'RainScape' solution that will deliver contingent benefits for biodiversity and local well-being. We believe this approach meets the principle set by Welsh Government in its Water Strategy for Wales that "*The SuDS approach is central to future surface water management and supporting innovative surface water drainage in Wales*" and very much has our support as a result.

We await further discussion on the detail of Hafren Dyfrdwy's business plan before expressing views.

We recognise the importance and value of Ofwat's role as economic regulator and the price review process which have delivered substantial benefits to Wales' well-being, by ensuring that companies are financed to deliver their statutory environmental obligations, and by challenging the sector's ambition and cost-effectiveness. Ahead of draft determination we encourage Ofwat to be mindful of the new legislative framework in Wales, and to ensure that when assessing plans for investment, there are no unintended consequences upon additional benefits for the environment that are included within schemes, that have been clearly scoped to align with Wales' legislative framework.

We believe that cost-effectiveness should not slow the delivery of best value solutions which will provide a greater long-term benefit. For example, the early and extensive adoption of event and duration monitoring in Wales now needs to be supported by development of Drainage and Wastewater Management Plans, and the application of the

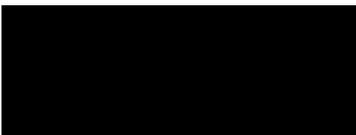
Storm Overflow Assessment Framework to secure environmental benefits in future years. This view aligns with Welsh Government's Strategic Priorities and Objectives Statement to Ofwat published under section 2B of the Water Industry Act 1991, which said, "*The regulatory framework should seek to ensure that companies do not delay appropriate investment in the short term to the detriment of the interests of future customers.*"

We would support Ofwat were they to look favourably upon water companies using their natural monopoly to price discriminate by further developing social tariffs to shelter those on low incomes from the rigours of properly pricing water, taking account of the total economic value of this scarce resource.

At draft determination we expect to see companies adequately financed to deliver their statutory environmental obligations, and support for best value solutions, in line with Welsh legislation.

We look forward to continuing to work with Ofwat, in particular on developing your new vision and strategy, and building upon the good working relations that have developed during the PR19 process.

Best wishes



Clare Pillman
Prif Weithredwr, Cyfoeth Naturiol Cymru
Chief Executive, Natural Resources Wales

Appendix A – the seven well-being goals.

Goal	Description of the goal
A prosperous Wales	An innovative, productive and low carbon society which recognises the limits of the global environment and therefore uses resources efficiently and proportionately (including acting on climate change); and which develops a skilled and well-educated population in an economy which generates wealth and provides employment opportunities, allowing people to take advantage of the wealth generated through securing decent work.
A resilient Wales	A nation which maintains and enhances a biodiverse natural environment with healthy functioning ecosystems that support social, economic and ecological resilience and the capacity to adapt to change (for example climate change).
A healthier Wales	A society in which people's physical and mental well-being is maximised and in which choices and behaviours that benefit future health are understood.
A more equal Wales	A society that enables people to fulfil their potential no matter what their background or circumstances (including their socio economic background and circumstances).
A Wales of cohesive communities	Attractive, viable, safe and well-connected communities.
A Wales of vibrant culture and thriving Welsh language	A society that promotes and protects culture, heritage and the Welsh language, and which encourages people to participate in the arts, and sports and recreation.
A globally responsible Wales	A nation which, when doing anything to improve the economic, social, environmental and cultural well-being of Wales, takes account of whether doing such a thing may make a positive contribution to global well-being.

Natural Resources Wales Annex to Dŵr Cymru Welsh Water Customer Challenge Group Report

As the principal environmental regulator in Wales, NRW's purpose is to pursue the sustainable management of natural resources in relation to Wales and apply the principles of sustainable management of natural resources in the exercise of our functions. Our work includes championing sustainable management of natural resources through our role on the Dwr Cymru Welsh Water (DCWW) and Hafren Dyfrdwy Customer Challenge Groups (CCGs); along with working with both companies to develop a National Environment Programme (NEP) to meet their statutory obligations and national policy priorities across their operations, including water resources, water quality and their section 6 biodiversity and ecosystem resilience duty. We are also a statutory consultee and advisor to the Welsh Government on water company water resources management plans (WRMPs).

In September 2018, we provided our views on DCWW's PR19 business plan as part of the DCWW Customer Challenge Group's report to Ofwat. Following the publication of the Initial Assessment of Plans in January 2019, we have worked with the CCG, DCWW and Ofwat to understand the feedback to the company. In this letter we provide our updated views where the company is proposing a change to the PR19 plan, and further information where we think this will assist Ofwat's scrutiny.

Pollution performance commitment

We are pleased to see that, in response to the IAP and in light of their wastewater pollution performance in 2018, DCWW have revised their pollution performance commitment for AMP7 to 78 incidents across all categories. We will continue to work with DCWW to ensure their approach to meeting the target is focussed on maximising the environmental outcome, and that the company sets a challenging target to minimise pollution in the long term.

We accept DCWW's view that there is a need to look at wider evidence, including the asset base when assessing commitments across the industry. We are currently undertaking a review of EPA measures with the Environment Agency (EA).

National Environment Programme (NEP4.1): Menai Strait shellfish waters - assessment of expenditure to reduce CSO spills

We note that DCWW are assessed as inefficient against industry costings on the reduction of CSO spills at Menai Strait Shellfish Waters. We believe this is due to an assessment of the planned expenditure against a traditional CSO storage solution.

We are aware that DCWW plan to develop a sustainable drainage (i.e. RainScape) solution to achieve their outcomes for Menai Strait Shellfish Waters. We are supportive of the proposed solution given the wider benefits such a scheme will deliver over the long term.

National Environment Programme (NEP4.1): programme to reduce CSO spills

Specific schemes have not been identified in NEP4.1 because further evidence will become available from the EDM programme, which does not conclude until 2020. We have agreed with DCWW that during AMP7 we will work with them to develop a prioritised programme which will make improvements at those assets where it is most cost beneficial. We expect the delivery programme will extend beyond the end of AMP7. We have indicated our support for the proposal, with an expectation that any efficiencies in AMP7 should be used to bring forward schemes in their proposed AMP8 programme.

Investment in Loughor

We note that the IAP has disallowed £54m in the DCWW Business plan for the work they have undertaken on the Loughor. We fully support DCWW's approach to their RainScape programme in Llanelli, which we recognise as a sustainable solution delivering multiple benefits for customers, communities and biodiversity. We will continue to encourage DCWW to develop an ambitious long term sustainable drainage programme in line with the principles of sustainable management of natural resources.

National Environment Programme adjustment mechanism

In July 2018 NRW issued NEP4.1 setting out the obligations and expectations that water companies in Wales must consider when developing business plans for the price review. DCWW raised concerns over the affordability of NEP4.1 if they were to employ traditional solutions and wrote to Welsh Government (WG) to propose a phased approach to delivery over the next 10 years to include greater working with partners.

We have indicated our support for the phased proposal, with an expectation that any efficiencies in AMP7 should be used to bring forward schemes in their proposed AMP8 programme.