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Ofwat's emerging strategy

Dear John

We welcome Ofwat's early engagement on its new vision and strategy. Whilst the PR19 process is not yet concluded, it is right to make a start now on the thinking required to shape a fresh and up to date vision for the sector for the next AMP period and beyond. In due course, that thinking will need to be updated with the insights and experience gained from a thoughtful review of the PR19 process.

Naturally the vision of the sector will need to go way beyond price reviews, which are simply a means to deliver value for customers and the environment. The sector needs to work towards meeting customers' expectations every day, and putting things right quickly and effectively when things go wrong. This means delivering service excellence not just today, but over the long-term, which in turn requires anticipating future challenges and starting to innovate and to invest now to meet them.

These aspects, rightly highlighted by Ofwat's emerging strategy document, are encapsulated in Welsh Water's vision – earning the trust of our customers, every day. Drinking water and environmental protection are services which customers cannot fully judge the quality of for themselves. They are also services that we all have to rely on together – our own health is crucially dependent on the quality of the drinking water and sanitation of our neighbours. As such, our customers need to know that they can trust us to be providing a safe, reliable and high quality service – at all times, for the whole community and for the long-term.

We agree that water companies should be encouraged to consider wider public value in what they do. A consistent finding from our engagement work with all groups of customers has been their expectation that we should play a wider, social role in making the areas we serve a better place to live. As a large business operating in the heart of the communities we serve, customers believe that we have wider responsibilities than just the provision of core water and wastewater services, essential though those are. As a company without shareholders, we are able to focus solely on delivering value

for customers, communities and the environment. However, we also recognise that value of the regulatory model which at its heart incentivises companies to 'beat the regulatory settlement' by finding innovations and efficiencies that deliver more for less. Overall, the present framework has been successful in bringing about huge improvements for society and the environment since privatisation.

One of the key tensions in the regulatory framework is between short-term incentives and long-term planning. Companies should be encouraged, as they are already, to consider the long-term. However, the five-year price review cycle limits the effectiveness of longer-term targets as a regulatory tool. Ofwat is right to consider as part of its emerging strategy how it can better accommodate the need for long-term planning and investment within its framework.

Our Welsh Water 2050 exercise considered the trends and challenges that we need to respond to, and the targets we must deliver over a thirty year timeframe. However, at times this did not sit comfortably alongside the PR19 methodology which was focused on assessment of the efficiency of expenditure plans, including setting a high-bar for demonstrating 'need' over the short- to medium-term. We would welcome engagement with Ofwat post-PR19 on how long-term aspirations and targets could be made to be more effective, and how multi-AMP investment programmes could be better accommodated in the price review process.

Ofwat's emerging strategy identifies areas in which it could drive transformational change – innovation, the natural environment, customer relationships and insight. We agree that Ofwat can play an important role in each of these areas, and they are each important to the future of the sector. As recognised in Welsh Water 2050, innovation will be essential to deliver on customer expectations and meet long-term challenges for an affordable price. The protection and restoration of the natural environment is now recognised as vital for our common future, and the water industry has a major role to play.

In Wales, the Environment Act and the Welfare of Future Generations Act has given a particular impetus to these concerns. The relationship between companies and customers is evolving, and our work with and in communities is demonstrating how new ways of working together can deliver value for all. Ofwat is right to focus on this as an important area for the future. We also agree that Ofwat has a unique ability to gather data and insight from across the industry that can support sound decision-making and the prioritisation of investment.

We welcome Ofwat's consideration of how the price review process could be reshaped in order to take into account all of the above. We agree that there are certain issues, within the scope of PR19, that could perhaps be better dealt with as ongoing concerns outside the price review process. These issues include vulnerability and innovation, while resilience, we believe, is likely to remain important as part of price reviews. Regarding customer engagement, willingness to pay remains a difficult issue that needs greater thought and research as to its role in price reviews. The proposal to look at the case for national surveys is welcome, but we would be nervous about any approach which did not allow for the different views of customers in Wales to be recognised.

In summary, Ofwat's emerging strategy document identifies a number of opportunities to think carefully about how to make Ofwat's role more effective in facilitating and incentivising the change that the water sector needs in order to address future challenges. As we have stated previously, we also think it is important to consider the overall cohesiveness and clarity of the regulatory framework, which has grown hugely in complexity over the last two decades. We look forward to working with Ofwat and other water industry stakeholders to progress these ideas and establish a joint vision which can deliver for all our customers and the environment in England and Wales.

Best regards

A handwritten signature in cursive script that reads "Mike".

Mike Davis

Director of Strategy and Regulation