



Independent Environmental
Advisory Panel to Welsh Water

Panel Ymgynghorol Annibynnol
ar yr Amgylchedd i Dŵr Cymru

Environment Directorate

Dŵr Cymru Welsh Water

Fortran Road, St Mellons

Cardiff

CF3 0LT

Tel: 0800 052 0145

E-mail: IEAP@dwrcymru.com

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IEAP response to Ofwat PR24 Consultation “PR24 and Beyond: Creating Tomorrow, Together”

Dear Ofwat,

I write as the Chair of Dŵr Cymru Welsh Water’s Independent Environmental Advisory Panel (IEAP), which brings together a range of environmental stakeholders, experts and regulators from across Wales and those parts of England the company serves. We advise the company on a range of matters, not just on how best to meet their environmental obligations but on maximising the benefits of their operations as a whole to the environment. It is clear that the environmental role that the company plays is more important than ever in light of the climate emergency, dealing with the impacts of climate change that are already with us, the deteriorating state of nature in Wales, and the less than adequate condition of our rivers.

Dŵr Cymru cannot solve these problems on its own, and it should not be expected to bear a disproportionate share of the burden simply because of its ability to raise revenue directly from customers. The IEAP helps to ensure that the company works collaboratively with the Welsh Government, Natural Resources Wales, and many others, to maximise the positive impacts of investments, and to ensure solutions are co-developed and delivered efficiently and effectively.

Nevertheless, as anchor institutions water companies do have a major role to play. They can and should be leading the way in developing nature-based solutions, reducing carbon emissions, and responding to the resilience challenges posed by the changing climate. We strongly believe that in order to rise to the challenge, companies need to be bold in their plans for the next AMP in terms of their approaches and their environmental ambition. The methodology for PR24 needs to clearly and overtly facilitate this step change in how the company integrates environmental and long-term thinking into its investment planning and operations.

We were pleased to see this agenda reflected in Ofwat’s PR24 consultation document. We support the focus on the long-term, and the aim to see an increase in nature-based solutions put forward by companies. Similarly, the recognition that Ofwat needs to find a way of funding justified additional costs of meeting carbon reduction targets. Ofwat acknowledges that companies will in some cases need to think differently and come up with game changing innovations including to the regulatory frameworks they work within which can act as blockers to such new thinking.

We also agree that there is an opportunity in Wales to progress the price review process in a more collaborative way as set out in the Future Generations Act, which specifically requires sustainable development (and its four pillars of sustainability, in line with Ethical Business Regulation) to be at the

heart of our decision-making. We see the involvement and support of Ofwat as critical here, working with the IEAP, the Company, and Welsh Government to set out our joint ambitions, and working together to ensure that the Company does not fall short in its aspirations, plans or delivery.

However, we remain concerned that despite Ofwat's recognition of the need to consider 'wider public value', Ofwat's regulatory processes are designed to drive efficiency above all – not best value for customers. Dŵr Cymru are working with the rest of the industry on approaches to capture 'multi capital' valuation methods. Drainage and Wastewater Management Plans are also in development. Both of these new planning tools we hope should transform the way in which the company looks at investment – and moves them away from a least cost set of 'grey' solutions to a set of best value 'blue / green' solutions – ones which are sustainable as required by the Future Generations Act, and inevitably take a different approach to risk.

In order for this new approach to feed through successfully into company business plans and ultimately AMP8 delivery plans, Ofwat and other regulators will also need to think differently and adopt more flexible approaches, approaches which clearly incentivise companies to make such changes in their thinking and planning. Some of these methods are as yet unproven, and nature-based solutions may take longer to deliver results – certainly longer than a single AMP period. We therefore urge Ofwat to ensure it recognises, supports, and adapts its models, incentives and processes to these new approaches – regulation needs to become more innovative in itself, with a new approach to 'risk' and 'efficiency'. Ofwat should explain the changes it has made to its models and assumptions, and consult on these at a later date, so that we can support you with such proposals.

In summary, we would urge Ofwat in the best long-term interest of the environment and customers to set the regulatory framework for PR24 such that it overtly and clearly encourages and recognises a package of investments and services that delivers best value in the round, rather than a least cost set of solutions. Wales offers the opportunity to test more flexible approaches with its radical and forward-thinking legislation. You might even want to consider it as a test bed for such radical proposals. Indeed, with the formation of Ofwat's Welsh Office and Bethan Evans's appointment we were hoping Ofwat might overtly move to do just that, and lead change within the broader industry. The IEAP and the CCG at Dŵr Cymru are working in partnership, putting the customer and the environment at the heart of our work. There needs to be openness and collaboration within organisations and with wider stakeholders. Working together as 'one Wales' we believe the company can step up and meet the challenges we are all setting, while being held to account for delivery and efficiency by yourselves.

Yours sincerely,

Mari Arthur

Chair of the Independent Environmental Advisory Panel to Dŵr Cymru Welsh Water