

1 September 2022

Consultation Response to Ofwat PR24 Draft Methodology 2022

Afonydd Cymru supports a refreshed commitment to the environment, which we believe has been underfunded and poorly regulated over previous AMPs by both Ofwat and the regulator, resulting in the current poor state in rivers in Wales. Further, we welcome Ofwat's improving commitment to recognise that water companies in Wales operate under Welsh Government and that this requires a different set of legislation and policy to be funded.

Primarily, we expect Ofwat to recognise the operational differences in Wales and reflect this both in metrics and in performance commitments. This is key to ensuring that Wales secures the requirements as outlined by Welsh Government in the Strategic Position Statement. Whilst we can understand the importance of comparative metrics to English water companies, we feel that current policy in Wales is diverging to an extent that allowances will need to be made to ensure that Welsh policy and legislation can be met. As a key example, Ofwat must recognise the different requirements outlined by the WG Taskforce for sewer overflows and Better Water Quality which requires an evidence-based approach. Whilst this data is being gathered, Ofwat must provide the water companies with flexibility on funding whilst specific schemes are unknown.

We strongly support Ofwat's change in mechanism to include nature based solutions where appropriate for long term, sustainable solutions. However, in driving this forward, Ofwat must recognise that nature-based solutions are new, innovative and in development and that evidence must be required to support the evidence and knowledge base. There is therefore some inherent risk which both the regulator and Ofwat must accept. Whilst we believe that this risk can be accounted for in design and development, there must be flexibility in securing this.

We welcome further commitment to performance measures for pollution, although consider that performance should be measured on both significant and lower categorisation events, for which the long-term cumulative impact may be greater. We have witnessed a decline in water company performance in this area which needs stronger financial controls to be endorsed.

We welcome new revenue controls on bioresources, however, given the current compliance issues in Wales for phosphorus we expect water companies in Wales to drive forward innovative and new ways of dealing with sewage sludge, recognising that spreading to land is not a long-term option. Significant innovation is required in this area to secure a long-term solution to nutrient pollution and in doing so, would avoid expenditure on end-of pipe solution for nutrient control.

We strongly support Ofwat recognition of how critical water companies are to their local communities and to support further engagement with stakeholders and customers. Afonydd Cymru expect Ofwat to further develop engagement specifically in Wales, recognising that eNGO and stakeholder meetings occur for English counterparts. In setting these up, Ofwat staff need to have knowledge of the different political requirements for Wales.

email: admin@afonyddcymru.org www.afonyddcymru.org

There is a clear distinction between biodiversity assessment in England and Wales, with Wales adopting a Biodiversity Net Benefit approach with no links to a defined metric. We expect water companies in Wales to account for the ongoing Welsh Government Deep Dive in Biodiversity and ensure that their operations result in a positive net benefit.

We welcome the continued support to the Innovation Fund and will explore with stakeholders in Wales consideration of a Wales-specific project to drive forward new innovative thinking with alignment to Welsh Government policy and legislation.

Afonydd Cymru have written separately to Ofwat regarding financial resilience for Wales. Current proposed measures provide no solution for Wales, where we are dominated by a not-for-profit water company and one over-shadowed by a larger ownership company. We remain concerned that proposed measures will not therefore bring any changes to Wales environmental performance and alternative approaches should be suggested which address this specifically for Wales. We remain concerned that it remains cheaper for a water company to pollute and accept the penalty than an incentive too deliver change. Over-achieving should also be awarded if environmental status achieved is higher than elsewhere in the country. Ofwat should potentially consider recirculation of fines in a similar format to civil sanctions to ensure environmental performance is still delivered.

Finally, we believe best value can only be driven by considering delivery on a catchment basis, with no separation of water and waste as both elements are clearly intrinsically linked. We feel that currently there is significant lost opportunity for greater environmental improvement and efficiency in delivery and that water companies should be rewarded for developing approaches which deliver on multiple drivers across water and waste. As an example, the sustainable management of water resources directly impacts the flows of rivers which are inherently then required as a receiving solution for wastewater. Treatment costs for drinking water are directly linked to the quality of water abstracted. We see no incentives to change this behaviour within the water industry, with Ofwat still proposing separate elements and driver papers still specific to water or waste. We believe companies should be incentivised to consider solutions across all drivers.

Kind regards,



Gail Davies-Walsh

CEO