



Independent Environmental
Advisory Panel to Welsh Water

Panel Ymgynghorol Annibynnol
ar yr Amgylchedd i Dŵr Cymru

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Dear Ofwat,

IEAP response to Ofwat PR24 draft methodology consultation ‘creating tomorrow, together’

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. The environmental role which the company plays is more important than ever considering the climate and biodiversity emergencies that have been announced here in Wales. We see all the players in the water sector, including yourselves, having a major role to play, dealing with the impacts of climate change that are already with us, the deteriorating state of nature in Wales, and the poor condition of many of our Welsh rivers.

We very much welcome your draft methodology for PR24 ‘*creating tomorrow, together*’ from an environmental perspective, and would like to make a few comments which we have detailed below:

Firstly, can we welcome how Ofwat has explicitly welcomed nature-based solutions to complement more traditional solutions and in particular adequate funding for these – through recognition of enhancement opex on the RCV for such solutions. We see this as a turning point and would hope to see the Company taking every opportunity to promote and deliver these in partnership with local communities and eNGO groups etc for the broader benefit of customers.

We also welcome the serious pollutions performance commitment proposal. This is an area where we see innovation and new technology assisting the Company to manage its assets better through proactively preventing pollutions from happening by using a better real time understanding of the assets and their operation.

We share your view that there should be a biodiversity performance commitment. We acknowledge that this is challenging, and that multiple sectors are involved in progressing ecologically resilient solutions, nevertheless a metric is required to drive and measure progress. Might we suggest that any metrics for Wales need to be linked to Welsh Government’s policy in this area.

We were pleased to see Ofwat’s recognition of the need for specific expenditure to achieve DCWW’s net zero ambitions. The Company already assesses both its operational and embedded carbon footprints and reports these in its annual report. Linking funding and or any performance incentives seems worth considering.

Turning to the challenges of storm overflows and a CSO spills common target – we welcome the recognition that different targets are appropriate for different companies across England and Wales, as Welsh Policy is markedly different to England on this subject. Similarly, a recognition that some companies experience much higher rainfall intensity and totals and therefore CSO spill frequencies and durations is also the fairest way to proceed. Recognising the differences in government policy here will, we feel, be a key example to illustrate where you have differentiated and accommodated different thinking between Wales and England.

With respect to water demand, the IEAP very much supports the need for managing and driving water demand down as a priority before we support and invest in any further water supply type solutions. In that regard, we understand you are still considering whether to use a single measure of water demand or 3 (leakage, per capital consumption and business consumption) for a common Performance Commitment. We do not hold a strongly held view as to whether a single or 3 separate performance commitments are warranted. Critical will be ensuring that the data from all 3 is captured and presented openly for stakeholders to review.

With respect to river water quality, we note again that Wales is taking a different approach to this from England, with the Wales approach centred on achieving good Water Framework Directive chemical and ecological status, with each of the sectors undertaking their fair share to achieve this. In England, the water industry is to not only deliver its fair share but also go significantly beyond that with customers funding the shortfalls we continue to see from agriculture. We do not support the use of lowest technically achievable limits at sewage works, i.e. demanding that the water sector deliver the lowest P and N loadings to rivers irrespective of the costs, as we already have seen examples of where partnerships between sectors such as agriculture and industry can deliver much better nature based and other ecosystem solutions at far lower carbon and financial cost than a low risk high carbon and economic cost approach. Nevertheless, we respect the policy differences between England and Wales, and if that is where English policy makers wish to go, that is a clearly a matter for them. Importantly for Wales, any incentives and metrics will need to respect the policy differences between the two countries.

We were particularly pleased to see the £200m Innovation fund continuing, and look forward to seeing innovations now materialise and bring benefits to customers.

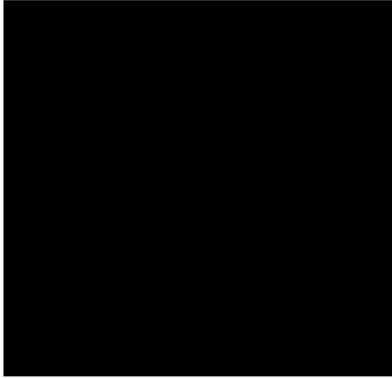
With regards to any environmental uncertainty mechanism, we would urge Ofwat to ensure that for Wales anyhow, any flexibility is maintained as we are aware of the impact of resource shortfalls in NRW which have led to delays in their work to support the development of the National Environmental Programme (NEP).

Concerning nature-based solutions, we note that Ofwat has set the bar as *“Companies should use nature-based solutions when they have a reasonably high degree of certainty that the solution will deliver the required outcomes.”* We would urge you to reconsider this and set a bar which encourages a greater degree of risk taking, so as to maximise the use of such solutions and not only have them implemented where there is high certainty of outcome. In this way we would enable companies in Wales to learn from both those solutions which have worked well and those which have not. Once we have captured this learning perhaps a higher certainty bar could be set for AMP9.

Finally, many of the IEAP remain concerned that Ofwat will feel unable as appeared to be the case at PR19, to set prices which clearly encourages and recognises a package of investments and services that delivers best long term 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 more innovative proposals. Indeed, with the formation of

Ofwat's Welsh Office, we were hoping Ofwat might overtly move to do just that, and lead change within the broader industry. Working together as 'one Wales' we believe Dwr Cymru Welsh Water can step up and meet the challenges we are all setting, while being held to account for delivery and efficiency by yourselves.

Yours sincerely,



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