

## Ofwat PR24 Draft Methodology 2022 September 2022

### Summary

PR24 has huge potential to drive action to protect and enhance our water environment. It could deliver a step-change, allowing water companies to lead the way in driving environmental improvements, and building the resilience of both our natural environment and our water sector. To achieve this, we need a challenging and transformational Price Review, which places the environment at the core of decision-making and delivery. Indeed, as the Welsh Government's recent Strategic Policy Statement to Ofwat has stated, three of its five key priorities focus on the climate and nature emergency, the wider environment and resilience (including the resilience of the natural environment).

WEL believes that the current draft of the PR24 methodology needs improvement to deliver on this potential. Further detail can be found in Blueprint Wales for PR24: Environmental Outcomes for the Price Review (enclosed with this response). This sets out our ambition for PR24, and the action required from Government, regulators, and water companies, to ensure the Price Review meaningfully delivers for people and for nature.

We have focused on the questions relating to the methodology's impact on the environment as this is our primary focus. We would like to raise the need for more practical examples of how the financial incentives and accounting methodologies work to regulate water company price setting and expenditure. Stakeholders without financial expertise are likely to be unable to comment meaningfully on these sections without further explanation and information, reducing the transparency of the consultation. The level of technical detail contained in the consultation and its 9 Appendices, each of which are approximately as long as the main consultation, also merited a longer period of consultation in our view.

## **Chapter 2: Regulating through the Price Review**

### **Q2.1: Do you agree with the challenges facing the sector and the ambitions for PR24 we have identified?**

We agree with the challenges facing the sector and broadly agree with the ambitions identified. We are particularly pleased to see the long-term ambition, and expect to see this drive long-term investment, where improvements are planned ahead and incremental progress is made across periods. However, this ambition mustn't be used to delay investment to later periods: good progress must be made in every AMP towards long-term solutions to mitigating and adapting to climate change, securing water resources and reversing nature loss.

We would also like to see ecosystem resilience more firmly encompassed within the ambition on greater environmental and social value. Resilience is a key priority of the Welsh Government and in Wales this includes ecosystem resilience as well as business or financial resilience. We are keen to see ecosystem resilience incorporated into water company decision making as the resilience of our ecosystems underpins our water resources and therefore water companies' ability to deliver their business services to customers into the future.

### **Q2.2: Do you agree that continuing to use our three building blocks helps push companies to meet our ambitions for PR24?**

The outcomes regime, cost assessment process, and risk and return framework must work cohesively and comprehensively to ensure environmental benefit. We have some initial concerns in this area. Firstly, the principle that financial incentives should apply symmetrically for out- and under-performance; this would be problematic if PC levels are set at the level of legal compliance, since we do not agree that complying with the law warrants a financial reward.

WEL is particularly keen to see strong outcomes for nature, as these can help to tackle long-term problems from flooding and water quality to reductions in greenhouse gas emissions in an efficient and low-carbon way. We also believe that all outcomes need to be incentivised sufficiently to deter under-performance. If

incentives for under-performance are not sufficiently punitive in comparison to savings made by delaying investment, the Outcome Delivery Incentives will not drive the ambition required. Currently, we question whether the likely penalties for under-performance are sufficient.

**Q2.4: Do you have any comments on our approach to evaluating progress? What specific evaluation questions (based within the four key ambitions) do you think an evaluation should look to answer?**

WEL supports the Price Review process being evaluated. We would like to see the extent to which environmental outcomes have been achieved through the ambitions of the Price Review, with ecosystem resilience, biodiversity, water quality and greenhouse gas emissions reduction as key areas for evaluation.

Water company evaluation by Ofwat is also not as transparent as it could be. We would support increasing the visibility and transparency of in-AMP progress by water companies against Ofwat's expectations and provide greater clarity on expectations for future Price Reviews, to facilitate focus on long-term outcomes. Ofwat should increase visibility and transparency of in-AMP progress against their expectations. Significant customer engagement and public discussion of water company plans and progress is often limited to the Price Review period. This could be achieved through evolving the Discover Water and Water Watch Wales websites, or by production of a new performance dashboard by Ofwat.

**Chapter 4: Reflecting an understanding of customers and communities**

**Q4.1. Do you agree with our approach to making sure that companies' price review submissions and our determinations reflect an understanding of customers', communities' and environmental concerns?**

WEL broadly agrees with the approach to making sure that companies' price review submissions and Ofwat determinations reflect an understanding of customers' communities and environmental concerns. We would expect to see the analysis from customer and stakeholder engagement published transparently, in business plans, so that they can see how decisions have been made.

In particular we support the focus on:

- affordability for customers;
- wider engagement with stakeholders and customers; and
- guidance on common (and improved) standards for evidence and research.

We expect this approach to drive greater accountability and transparency to customers and stakeholders in helping to shape PR24. However, it is important that Ofwat continues to scrutinise how the engagement is carried out, and that customer evidence is clearly reflected in the water companies' next business plans. Besides the proposed open challenge sessions, the methodology is still somewhat vague on how this scrutiny will be implemented, although we expect this to be made clearer through subsequent customer research documents.

We welcome the expectation for effective partnerships between water companies and their customers and communities to address urgent challenges, such as driving water demand down and reducing sewer blockages. However, more can be done by the Government to influence consumer behaviour – in our Blueprint Wales for PR24 recommendations we have proposed that the Welsh Government should “Fund a national campaign to change consumer water use behaviour and the way people dispose of items and chemicals down drains and toilets.”

Water companies in Wales already run information campaigns, such as Dwr Cymru's “Stop the Block” campaign. These have had limited impact on changing consumer behaviour, so we feel the greater reach provided by a partnership of Government, water companies and other trusted stakeholders (such as environmental NGOs) could be more effective. However, such campaigns should not prevent governments legislating to control problem items, such as plastic wet wipes, where these are causing long-standing negative impacts to the environment.

We also welcome the recommendation for greater company-specific customer engagement where water companies seek to deliver wider environmental and social benefits beyond statutory requirements and at a greater cost to customers. However, we ask that water companies and Ofwat adopt a value-added assessment when considering these wider benefits, which are often provided through catchment

and nature-based solutions (C&NBS), for example. Traditional cost-benefit assessments tend to be biased towards engineered capital solutions, often resulting in the more resilient C&NBS being assessed as costly, uncertain and risky. A value-added (or multi-capital) assessment can account for the wider benefits of these solutions and make them comparable to engineered solutions, as well as attracting wider investment that can drive cost savings for customers.

This level playing field will enable customers to compare like for like and to have a more informed view on the development of plans. In Blueprint Wales we also recommend that water companies “Invest in quality engagement with local communities wherever Catchment and Nature-based Solutions are being considered. Schemes with community support are more resilient and the community often play a key role in ensuring their operational effectiveness.”

**Q4.2. Do you agree with our proposal to conduct open challenge sessions?**

**Q4.3. Do you have views on open challenge sessions can align with the collaborative approach in Wales?**

In Wales, we would see customer challenge groups as an opportunity to test proposals more widely with customers and stakeholders that have not had the opportunity to participate in the PR24 Forum or other relevant stakeholder groups. This is also an opportunity to include a wide diversity of customers and communities in Wales. We do not see this proposal as opposed to the approach in Wales, simply and opportunity for an additional layer of engagement and consultation.

**Q4.4. Do you have views on how the outcome of collaborative customer research can contribute in the context of the collaborative approach in Wales?**

Wales’ PR24 Forum should have early access to the collaborative customer research to assist its discussions and development of collaborative recommendations for the Ofwat methodology and water company plans.

## **Chapter 5: Delivering outcomes for customers**

### **Performance commitments**

**Q5.1. Do you agree with our proposed package of common performance commitments? Is water demand best incentivised through separate performance commitments on household and domestic consumption and leakage or through a performance commitment measuring total demand?**

We welcome the environmental focus of the common performance commitments, reflecting the need for the sector to decrease its impact upon the environment on which it depends, and the desire of customers and stakeholders to see significantly-increased environmental performance. In particular we welcome a specific performance commitment on biodiversity.

We welcome the consideration of operational GHG emissions and are pleased that this will include Scope 3 emissions. We suggest that wider reporting to customers could include aspects such as the carbon emissions saved via the adoption of nature-based solutions, and measure that are more understandable for customers e.g. the 'carbon cost of every litre of water used', which would link through to water saving messages.

We welcome consideration of both Serious (Category 1 & 2) and Total (plus Category 3) pollution incidents and, as per our PR24 recommendations, believe that these should be set at Zero by all companies – given that Serious Pollution Incidents include those from water and not just wastewater assets, we suggest that this PC should apply to water-only companies as well as water and wastewater companies.

We support the design principles set out by Waterwise for a performance commitment on reducing water demand. The performance commitments for reducing water demand should remain as three separate commitments – business use, household use, and leakage – rather than being combined into a single demand performance commitment. This would help drive improvements across all three areas and mitigate the risk of unequal progress and prioritisation on these areas within a single, combined commitment. However, if this is turned into a single commitment, reporting on the separate elements should continue to aid transparency for customers and stakeholders.

In considering whether further performance commitments are required to support a more outcomes-based approach to the National Environment Programme, we suggest a target that incentivises the increased use of Catchment and Nature-based Solutions – as these solutions are not yet ‘mainstreamed’, such as target would encourage companies to upscale their use, paving the way for their much greater adoption in PR29 and beyond.

**Q5.2. Do you agree with our proposed guidance for bespoke performance commitments?**

We welcome that bespoke PCs will be less extensively used in PR24 and will be utilised for certain specific circumstances - such as where issues are locally specific or where performance has fallen well below that of the industry as a whole and does not warrant a sector-wide PC. We also suggest that bespoke PCs could be employed for industry-leading activity and could be important in driving ambition and innovation on topics where there has been limited sector-wide progress. An example could be a PC on tackling emerging pollutants or embedding circular economy approaches. Any such innovative PCs should be accompanied by a requirement for sector-wide knowledge sharing.

**Standard incentive rates**

**Q5.6. Do you agree with our proposed approach to incentivising asset health performance?**

The use of the same asset health performance commitments as at PR19 is welcomed, but more can and should be done to expand on the common asset health outcome metrics to include other measures that reflect on the life of the asset, criticality and how fit for purpose they really are. We want to see greater commitment and transparency around resilience of asset health, for example, how this resilience is being tracked over time and compared across the sector. A clearer understanding of current and future asset health risks and the plans that water companies will put in place to mitigate these would also be welcomed. Furthermore, an industry-wide transition to a more systems-based approach would add to resilience of asset health in the long term.

**Q5.10. Do you agree with our proposed approach to knowledge sharing?**

We agree with the requirement for knowledge sharing and the proposal to claw back payments if a company's knowledge sharing activities are inadequate. This will mean that customers of all companies ultimately benefit from enhanced ODIs. Since companies are not in direct competition there is no justification for refusing to share knowledge and experience which will enable the sector as a whole to improve performance, particularly when it comes to environmental performance, as current poor practice is known to reflect badly upon the sector as a whole. This approach is also in line with the Welsh Government's focus on collaboration in Wales.

### **Assessing and managing risks**

#### **Q5.11. Do you agree with our proposal to set caps and collars on a targeted basis, and apply a two-sided aggregate sharing mechanism to all companies?**

We disagree with the application of a symmetrical two-sided aggregate sharing mechanism. ODIs are intended to act as an incentive for companies to deliver their committed levels of performance, returning funding to customers for foregone benefits if they deliver less than is expected – as such it is unclear to us why the proportion of the potential payment that customers receive varies with the severity of the underperformance. We suggest that companies (and indirectly, their shareholders), should always bear the cost of funding returns to customers, in full. We do welcome the concept of a sharing mechanism to protect customers from the financial impacts of very high performance (since customer bills would finance the reward), but recognise that such limits can also disincentivise companies from stretching performance. As such we feel that the ability for companies to earn up to 3% RoRE without any sharing of payments strikes this balance.

We also consider that the ODI rate for underperformance should be set at a level that genuinely incentivises companies to reach their targets. If under-investment is cheaper than that the amount that will need to be refunded to customers for under-performance, this will not sufficiently incentivise companies to achieve stretching targets.

#### **Q5.16. Do you have any wider comments about the ODI framework at PR24?**



These will be captured in our submission on Appendix 6.

## **Chapter 6: Setting expenditure allowances**

### **Providing companies with an efficient cost allowance**

#### **Q6.1. Do you agree with our proposed approach to setting efficient expenditure allowances at PR24?**

Efficiencies in baseline expenditure that deliver carbon saving or nature protection benefits should be rewarded more than those which are neutral or harmful. Water companies should therefore be able to keep a greater proportion of baseline efficiencies that have been delivered by low carbon or nature positive actions.

The case for any enhanced expenditure should be considered against a presumption in favour of nature-based or nature-positive solutions. Water companies should be expected to demonstrate engagement with environmental NGOs and local environmental groups in developing their proposals for enhanced expenditure PCDs.

### **Funding for water companies to maintain good asset health and resilience**

#### **Q6.4. Do you agree that resilience enhancement should be used to fund companies to manage increasing risks to specific hazards that are beyond their control and not covered by base expenditure and other enhancement areas?**

In principle, we agree that resilience enhancement should be used to fund companies to manage increasing risks to specific hazards that are beyond their control and not covered by base and enhancement expenditure. We need to see significant investment in infrastructure and assets to deal with the accelerating impacts of climate change, as an example. However, we are concerned that Ofwat, in stating that “historical allowances have been sufficient for companies to maintain and improve outcomes and asset health measures over previous periods” is not recognising the scale of historical under-investment in water assets, particularly in terms of moving to a 21<sup>st</sup> century wastewater system.

This failure to prepare and historic lack of investment in infrastructure should be an additional challenge recognised by Ofwat. Due to decades of inaction and failure to

invest, and now the cost-of-living crisis and inflation, we are facing a 'perfect storm' with a suffering water environment at the centre. To rectify this requires greater recognition of environmental resilience, framed in the following context:

- Cuts to capital investment by the water industry, required by Ofwat through previous price reviews have hampered maintenance and improvement of infrastructure. For example, PR14 saw Ofwat cut £1bn of capital investment from business plans and for PR19, Ofwat proposed to cut £6.7bn, though this was reduced following water company appeal. Analysis by Angling Trust and WildFish suggests there has been a £10bn investment funding gap over the past 10 years, and that the consequences of failing to invest in water infrastructure will cost significantly more in the long term – £40bn versus £21bn, plus thousands of jobs. Whilst it is important to protect customers from inefficient spending and unnecessary investment, the lack of investment in both asset health and in new infrastructure have been a false economy.
- Ofwat should promote greater investment in water and sewerage infrastructure through the Price Review and enable water companies to take holistic action to tackle stressors on the water and sewerage network. For example, Ofwat must further incentivise and approve the use of Catchment and nature-based solutions (C&NBS) and the multiple benefits these can offer for both environmental and industry resilience, through transition to a multi capital accounting approach (which includes natural capital).
- A recent CIWEM report explains that whilst provision has been made by Ofwat for companies to maintain and upgrade their sewerage infrastructure as part of the 5-yearly price review, insufficient use of this provision has been made.
- The House of Commons Environment Audit Committee's Water Quality in Rivers report concluded that Ofwat 'has hitherto focused on security of water supply and on keeping bills down with insufficient emphasis on facilitating the investment necessary to ensure that the sewerage system in England is fit for the 21st century'.

With the acceptability of raising bills hampered by the cost-of-living crisis, Ofwat will need to carefully balance the financial impacts of the price review upon customers. In this regard it is crucial that companies bear the costs of rectifying past failures; where costs have already been awarded customers must not foot the bill again. The regulator must also push companies to tie executive pay more closely to

environmental performance, ensuring that bonuses are not paid to the leaders of companies that don't meet customers' expectations whilst those customers themselves may be struggling to pay their bills. We expect to see Ofwat using all the tools at its disposal to ensure that companies perform better, and that their customers are protected from company failings. Yet despite the pressures on customers, increased investment will be necessary, and some of this will need to come in the form of bill increases. This may be unpalatable, but is nevertheless necessary, because the scale of risk to our natural environment demands immediate action. The failure to invest in the environment will mean greater costs in the long run, and the careful choice of solutions will make it possible to offset many of these costs. Water companies have a key role in delivering the Government's environmental objectives, so consumer money spent in delivering these objectives displaces public spending that would otherwise be needed. Optimising spending proposals through the robust assessment framework of the PR, and doing so at scale, offers an opportunity to meet our environmental objectives efficiently and holistically, whilst ensuring that efforts to clean up the environment are not thwarted by continued poor performance by water companies.

### **Delivering service improvements to customers and the environment from expenditure allowances**

**Q6.5. Do you agree with our proposed approach to setting performance commitment levels at PR24?**

**Q6.6. Do you agree with our view on what performance commitments should be set using common or company specific performance commitment levels?**

Specific comments on PCs are under Appendix 6.

### **Facilitating efficient investment over 2025-30 and the long term**

**Q6.7. Do you agree with our proposed approach to incentivising and funding efficient investment in reducing greenhouse gas emissions and reducing the use of storm overflows?**

**Q6.8. Do you agree with our proposed approach to implementing nutrient neutrality in the PR24 regulatory framework?**

Awards for enhanced spending on net zero actions should embed a preference for cost effective nature-based solutions, so assessments should reflect metrics other than lowest cost.

The principles of competitively awarded enhancement spending should also be considered for actions that contribute towards urgent priorities in nature protection. These are often better defined with reference to local conditions and priorities. GHG mitigation or adaptation benefits may also be considered in assessing the value of such schemes. Particular emphasis should be placed on the desirability of enhancing water company SSSIs/SACs and SPAs and recreational/wellbeing benefits of accessing nature. Such schemes should encourage partnership working at scale and co-financing.

Ofwat plans to incentivise reduction in use of storm overflows and implement nutrient neutrality are based on targets and requirements set in England only. Ofwat must recognise the different requirements in Wales, and the recommendations outlined by the Welsh Government 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.

## **Delivering best value**

### **Q6.9. Do you agree with our proposed approach to encouraging companies to deliver best value through our cost assessment?**

We agree with delivering a best value approach, however more clarity is needed in terms of how water companies will go about identifying the best solution for customers and the environment. To expect companies to approach options appraisal “with an open mind” when considering best value, is open to interpretation. Therefore, specific guidance is needed, otherwise we will continue to see the same bias towards traditional end-of-pipe solutions, which rarely provide multiple benefits and do not necessarily respond to multiple drivers, but nevertheless offer a business-as-usual tried and tested approach to how least cost is assessed. Optioneering and options appraisals should be carried out with extensive engagement from customers and wider stakeholders, particularly when considering options that sit outside of the traditional asset base, such as catchment & nature-based solutions (C&NBS). Further development of a multi-capitals approach would also be helpful in determining best economic, environmental and social value of solutions.

WEL's PR24 recommendations include that the NEP optioneering should include specific ambitious targets for the increased use of C&NBS, supporting their 'mainstreaming' and securing their contributions to nature and climate goals. Water companies should adopt these as a matter of course and be able to provide good evidence where such solutions cannot be incorporated. Clear appraisal guidance is needed to ensure that where C&NBS are the preferred options by water companies and stakeholders, proposals will be accepted by the regulators.

**Q6.10. Do you agree with our proposed approach to removing the potential disadvantage that nature-based operating expenditure solutions may face in relation to the treatment of enhancement operating expenditure?**

We welcome the positive steps towards a greater consideration for nature-based solutions and the flexibility around the longer 10-year operating expenditure, as well as the maximising of co-funding opportunities through working with others. However, 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.

Consequently, we think the proposed approach is still not ambitious enough, it falls short of levelling the playing field between nature-based and capital solutions and does not resolve the CAPEX bias, particularly as water companies will now be required to produce long-term strategies and adaptive plans that go far beyond 10 years. There needs to be greater incentivisation of nature-based solutions, particularly where multiple drivers, multiple benefits and wider outcomes can be achieved.

**Chapter 9: Promoting financial resilience**

**Q9.1. Do you agree with the proposed standard set of scenarios for testing financial resilience?**

**Q9.2. Do you agree with our approach to how the board of the company should approach its board assurance statement?**

**Q9.3. Do you agree with our proposed approach to dividend policies, performance related executive pay and voluntary sharing of financial outperformance?**

WEL members think that the proposed measures are not fit for purpose in Wales, where we are dominated by a not-for-profit water company. We remain concerned that proposed measures will not bring any changes to Wales' environmental performance and alternative approaches should be suggested which address this specifically for Wales. We are also concerned that it remains cheaper for a water company to pollute and accept the penalty than to deliver change.

**Chapter 11 - Encouraging quality and ambitious business plans**

**Q11.1. Do you agree with the framework we propose to encourage the best business plans? Specifically, do you agree**

- **that we should first assess 'quality' followed by 'ambition'?**
- **with our proposed allocation of rewards and penalties for performance on each?**

We agree that quality should take precedent over ambition, although ambitious business plans are also important. The most important thing is that ambitions can be delivered. We also acknowledge that penalties can be a useful mechanism for incentivising business plans that meet the quality and ambition expectations. However, it should be considered whether penalties are sufficient in curbing pollution by water companies. Where penalties are used, they should be sufficient to deter poor practice and make investment in improvements to assets and practices a better option than paying a penalty for failure.

**Q11.2. Do you agree with the proposed scope of our 'quality' assessment?**

**Specifically, do you agree:**

- **we should have minimum expectations in the six areas described above?**
- **with the minimum expectations we specify in each of the six areas?**

WEL would like to see Ofwat encourage mainstream use of multi-capital accounting in decision making, so that environmental (natural capital) and social costs and benefits are captured when assessing the quality of plans. This would support the integration of ecosystem resilience into water company decision making, which is

one of the goals of Wales' Wellbeing of Future Generations Act, and would support the provision of evidence for the quality assessment.

**Q11.3. Do you agree with the proposed scope of our ambition assessment?**

We welcome the inclusion of 'wider environmental and social benefits, costs, risks, opportunities for third party funding and the affordability of customers' bills' into the ambition assessment. However, we would like to see more detail on how much this should affect investment. A standardised framework for assessment of environmental risks, opportunities and costs should be provided to water companies so they are able to meet the requirements and understand the priority of environmental considerations.

**Q11.4. Do agree with our proposed reputational, financial and procedural rewards and penalties, including the overall package of reward and penalty?**

While it is clear that penalties need to be increased to lower the amount of pollution incidents, penalties that are too large could detract from funds for investment if enforced too often and could dampen progress to deliver the infrastructure needed to prevent greater pollution and sewage discharge. Ofwat should consider recirculating penalty funds into pollution preventative infrastructure under a watchful regulatory eye in a streamlined version of the current environmental undertaking processes. For example, treatment wetlands have been shown to improve water quality by filtering out pollutants, save money through lower maintenance and decreased chemical input, and have a positive effect on the environment and surrounding biodiversity by providing a habitat.

**Q11.5. Do you have any other comments regarding our proposed approach to business plan incentives at PR24?**

As previously mentioned under our response to question 6.4. Ofwat should acknowledge that there has been underinvestment in water industry assets over the last 20 years. The industry is only now considering how to properly transition towards a more modern sewerage system, as a result of public outrage. Serious investment is needed so that customers continue to receive good service and the

environment is protected into the future. We support Ofwat's principle that "customers should not pay again for past underspending or under delivery". Therefore, Ofwat, along with the UK and Welsh Governments, need to consider all financial mechanisms to ensure the right level of investment into the future so that the full burden of this does not fall solely on customers.

The financial levers contained within this consultation are complex and many stakeholders and customers will struggle to understand where there may be other opportunities for financing investment in our water infrastructure. Ofwat needs to be more transparent about how these mechanisms work in practice, and needs to consider providing more time for stakeholders to consider a consultation as large and detailed as the PR24 methodology in future price reviews.

## **Appendix 6 – Performance Commitments**

### **Environmental**

#### **QA6.5. Do you agree with our proposed definition for the biodiversity performance commitment?**

WEL is very pleased to see that there will be a biodiversity performance commitment and strongly support this. However, the Biodiversity Net Gain metric is proposed for England, and we will let English colleagues assess its usefulness for the biodiversity performance commitment.

Recognition needs to be given to the different approach in Wales, namely 'Net Biodiversity Benefit'. This approach seeks to deliver an overall improvement in biodiversity from land uses and is explained in [this CIEEM briefing paper](#). There is no proposal to use a metric, rather it puts the emphasis on the consideration of biodiversity and wider ecosystem benefits in the early stages of a proposal's development process. The Welsh Government are still developing this approach with others, but it is likely to use DECCA: Diversity, Extent, Condition, Connectivity and Aspects of ecosystem resilience. These attributes provide a framework for considering the state of ecosystem resilience in Wales. Flexibility needs to be built into water companies business plans in Wales to enable them to respond to the emerging framework, measures and targets as they develop. Notwithstanding this, water companies should be required to have up-to-date condition surveys of all the



designated sites on their land holdings so that any measures and targets can meaningfully demonstrate progress towards 'favourable site condition'.

Ofwat may wish to consider encouraging water companies to work with local NGOs and communities to develop a list of priority habitats & species, or known pressures e.g pollutants, chemicals, in key locations in the vicinity of their operations, and undertake more specific assessments of the effect of water company operations on those receptors. This can make use of existing baseline data, citizen science etc. The PC would therefore target those receptors that matter most to local communities and environmental stakeholders. A generic biodiversity PC could be used where water companies are unable to identify or sufficiently justify a bespoke environmental PC.

**QA6.6. Do you agree with our proposal to have separate operational greenhouse gas emissions performance commitments for water and wastewater, which are based on a normalised measure?**

WEL agrees with this proposal as the nature of the activities means they are not directly comparable.

**QA6.7. Do you agree with our proposal that the performance commitment on serious pollution incidents should only apply to water and wastewater companies?**

We do not agree with this proposal as mentioned in our answer to question 5.1. Whilst serious pollution incidents are less common from water-only companies, they can happen, so the performance commitment should apply to water-only companies also.

**QA6.8. Do you agree we should focus the bathing water performance commitment on the outcome that customers have received and should continue to develop an alternative definition to do this?**

WEL agrees with this proposal as it should incentivise further reductions in sewer overflow spills if samples included as part of the measure must include periods when the public have been advised not to bathe. Bathing waters that are frequently unusable due to sewage spills demonstrate that water companies are failing in their commitment to customers and to local communities, as well as causing environmental harm.

**QA6.9. Do you agree with our proposal for the river water quality performance commitment to measure the reduction of phosphorus entering rivers?**

WEL strongly agrees with this proposal but again note that, in Wales, the development of this commitment also needs to take account of developing recommendations from the Better River Quality Taskforce.

Wales Environment Link (WEL) is a network of environmental, countryside and heritage Non-Governmental Organisations in Wales. WEL is a respected intermediary body connecting the government and the environmental NGO sector. Our vision is a thriving Welsh environment for future generations.

This paper represents the consensus view of a group of WEL members working in this specialist area. Members may also produce information individually in order to raise more detailed issues that are important to their particular organisation.



**Swyddfa Caerdydd**  
 Tramshed Tech  
 Uned D, Stryd Pendyris Caerdydd CF11 6BH  
 F: 07498 228066 | E: enquiry@waleslink.org  
 Trydar: @WalesLink

**Cardiff Office**  
 Tramshed Tech  
 Unit D, Pendyris Street, Cardiff CF11 6BH  
 T: 07498 228066 | E: enquiry@waleslink.org  
 Twitter: @WalesLink

[www.waleslink.org](http://www.waleslink.org)