

Ref 7.1

Assessment of the plan against Welsh Government's SPS

September 2018

PR19 Board Assurance

Ref 06: Consideration of Welsh Government SPS

August 2018

Executive Summary

One of Ofwat's requirements for Board Assurance is that the business plan should "take account of the Welsh Government's strategic policy statement".

The Welsh Government's Strategic Priorities and Objectives Statement (SPS) to Ofwat sets out six objectives for Ofwat, and seven priorities for the economic regulation of the water sector in Wales as follows:

- Affordability
- Innovation
- Long-term
- Markets and competition
- Resilience
- Strong customer focus
- Sustainable management of natural resources.

Welsh Water supports the Welsh Government's agenda for water and the environment in Wales, including the Water Strategy for Wales (2013). As such we have fully taken the Strategic Priorities and Objectives Statement (SPS) into account in our plan. This paper summarises how we have done so.

Overall, the Executive is content that our PR19 Business Plan is well aligned with the Welsh Government's Strategic Priorities and Objectives Statement to Ofwat, and we can identify specific activities and investments in the plan that demonstrate how we have taken account of the Statement in developing our Business Plan.

The text below in *italics* is taken directly from the Welsh Government's SPS under each of the seven priority areas. For each, we provide a short statement setting out how our plans support and align with these priorities.

Affordability

We expect Ofwat to consider both current and future affordability in the design of its regulatory framework. Ofwat should incentivise companies to continuously seek efficiency gains to deliver more for less in order to improve the value for money of water and sewerage services, having regard to resilience and service over the long term. We expect social tariffs to be available for those who struggle to pay, reflecting the views of the generality of customers. We also expect Ofwat to support appropriate efforts by companies to meet the challenge of managing customer debt and minimising write-offs so as to minimise the impact of bad debt on other customers' bills.

Our plan will deliver improved affordability for customers through lower average bills in real terms, and increased numbers of customers on our social tariffs. We also plan to reduce bad debt substantially as a proportion of total revenue. These bill reductions are sustainable beyond 2025.

Innovation

Ofwat should incentivise companies to seek new ways of delivering services for customers and the environment more efficiently, on the basis of sound evidence and research. An example would be developing markets for ecosystem services where these are based on robust economic and scientific evidence and have considered the polluter pays principle. Ofwat should encourage the use of catchment approaches which recognise the value of wider partnerships and the involvement of landowners, farmers and other stakeholders in delivering improvements.

Innovation is a fundamental part of our PR19 plans, and is essential if we are to deliver our Welsh Water 2050 strategic objectives. We have a strong culture of innovation as demonstrated in our plans. We will be pursuing a major catchment strategy in AMP7 which has been widely discussed with Welsh Government – the Brecon Beacons Mega Catchment – in partnership with landowners, farmers, Natural Resources Wales and other stakeholders.

Long-term

We expect Ofwat to consider the appropriate balance between short-term affordability and the need to safeguard longer term affordability, resilience and performance. The regulatory framework should seek to ensure that companies do not delay appropriate investment in the short term to the detriment of the interests of future customers. Assets should be monitored and maintained appropriately to ensure that the costs borne by future bill payers are efficient. We expect companies to have long-term planning frameworks for both water and wastewater. Ofwat should encourage and incentivise long-term planning by companies to protect against anticipated future social, economic, and environmental challenges, while taking advantage of technological innovations. Ofwat must work with the Drinking Water Inspectorate to regulate companies to encourage and incentivise them to maintain the current high standard of public drinking water quality for the long-term. This should include customer acceptability as well as wholesomeness.

The next price review period covers 2020-25, but we are already planning for 2030 and beyond. Our business plan is set in the context of our long-term plans as published in our Welsh Water 2050 document, which has been warmly welcomed by the Welsh Government Minister. Our business plan includes performance commitments to 2030 and in some cases as far as 2050. We have also prepared a preliminary financial plan to 2030, to ensure that our commitment to reducing bills while improving performance is sustainable over the longer term. As set out in our performance commitments we track and monitor asset health, and have committed to preventing any deterioration in these measures. We have worked closely with the Drinking Water Inspectorate in

the preparation of our plans to ensure the long-term safety of public drinking water, and have committed to a significant reduction in customer contacts due to the acceptability of water.

Markets and competition

The Welsh Government recognises the potential role that markets can sometimes play in raising performance standards and driving efficiency. However, Ofwat should ensure that its regulatory approach is consistent with Welsh Government policy on retail competition and upstream competition. Ofwat's regulatory approach to markets should seek to ensure that there is a level playing field between new entrants and existing undertakers. Further, Ofwat should not seek to introduce competition where the activity of new entrants would reduce undertakers' overall accountability for the delivery of excellent services to customers and the environment, or threatens the integrity and efficiency of the management of the network systems as a whole. Ofwat should not move towards the de-averaging of network charges for end users, based on the cost of providing them with water and sewerage services to their geographic location.

Welsh Water is participating in the market for retail services for non-household customers to the extent that our customers are eligible under existing legislation applicable to our area. We are making plans to respond to the implications of our operation area in England falling under relevant English legislation from April 2020, in terms of a significant increase in the number of non-household customers eligible for competition for retail services in that area. We are responding to changes in Ofwat's regulatory framework to extend competition to certain areas of activity, notably bioresources and raw water transfers. We have set our plans to respond to these specific opportunities, while at all times ensuring that we deliver the best value for customers and protect the environment.

Resilience

Ofwat has a key role to play in the delivery of a resilient water sector. Ofwat's approach and regulatory framework should encourage, enable and incentivise resilience both in regard to short and long-term challenges. Companies are responsible for ensuring their assets and the services they provide are resilient against natural hazards and other problems that can be reasonably anticipated and that their services are resilient against asset failure and other threats including cyber-attacks. Ofwat should encourage and incentivise companies to maintain and enhance the resilience of ecosystems and the benefits they provide in the delivery of their functions, and in so doing, meet the needs of present generations without compromising the ability of future generations to meet their needs.

Strengthening resilience so that our customers can depend on their water and sewerage services, both now and in the future, is a major feature of our 2020-25 Business Plan. However, resilience is not just about assets. Our 'whole business' approach to resilience is captured in the Resilience Wheel developed as part of the development of our Welsh Water 2050 plan. Our plan includes investment to strengthen resilience in key areas as informed by an assessment against all aspects of the Resilience Wheel, including cyber and physical security. We monitor and measure the resilience of our assets and have included five relevant Measures of Success as regulatory performance commitments (ODIs) in our plan.

Strong customer focus

We expect Ofwat to incentivise companies to engage effectively with customers and stakeholders and deliver what customers want, having regard to the possibility that different customers may have different priorities, including vulnerable customers. Companies should demonstrate that their business plans are acceptable and affordable having regard to both their existing and future customers. Ofwat should also encourage companies to communicate effectively with their customers and increase customer involvement where customer behaviour can help reduce operating problems and increase efficiency.

Given our non-shareholder model, we put particular emphasis on metrics such as customer satisfaction and customer trust, and challenge ourselves to be consistently among the best performing companies in the industry. We plan to maintain and improve on this strong record of customer service over the next period. We have undertaken a comprehensive programme of customer research to inform our business plan, with oversight from the Customer Challenge Group. This has included 'acceptability testing' to ensure that the plans are affordable and acceptable to customers, which found that 92% of customers found them acceptable and 95% affordable, with strong support across all customer groups.

Sustainable management of natural resources

The Welsh Government recognises the need for more integrated approach to managing our natural resources, including through whole catchment approaches. Ofwat should encourage and incentivise the sustainable and efficient use of water resources, including by encouraging companies to reduce leakage and consumption where it is cost effective to do so. Ofwat should encourage and incentivise companies to manage waste water and surface water in an integrated and sustainable way. Companies should be incentivised to seek solutions which deliver wider benefits to society and the environment, where this is justified by sound evidence.

We take our responsibility to the environment every bit as seriously as our commitments to customers. Working closely with Natural Resources Wales and the Environment Agency we have invested heavily in recent years to improve the quality of rivers and bathing waters around Wales. Wales now has 47 Blue Flags, more than any other area of the UK. We have agreed a substantial National Environment Programme with Natural Resources Wales (NEP) and the Environment Agency (WINEP) which will see around 400 kilometres of river improved towards 'good' ecological status. At the same time we will continue to roll out our Rainscape programme to priority catchments, helping to reduce releases of storm water now and in the future so as to prepare for the long-term impacts of climate change. By 2025 we expect to be generating around a third of our energy needs through our own energy generation activities.

Demand management and leakage control feature strongly in our plans, with our innovative new Project Cartref ('Home') aiming to deliver a 15% reduction in leakage and reductions in household usage. This Project will work in partnership with the Welsh Government's energy efficiency programmes ('Arbed' and 'Nest').