



Llywodraeth Cymru
Welsh Government

Strategic Priorities and Objectives Statement to Ofwat issued under section 2B of the Water Industry Act 1991

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

2017

STRATEGIC PRIORITIES AND OBJECTIVES STATEMENT TO OFWAT

1. Introduction

- i. The Welsh Government is committed to sustainable development as its central organising principle. Our long term aim is to build a Wales that is prosperous and secure, healthy and active, ambitious and learning and united and connected. We aim to enhance the economic, social and environmental wellbeing of people and communities across Wales. Our Water Strategy for Wales emphasises the key role of water in achieving this goal and sets out our expectations of water companies. Ofwat as the independent economic regulator has a pivotal role to play in the ability of the sector to deliver on this ambition. Working closely with quality regulators (principally the Drinking Water Inspectorate and Natural Resources Wales) Ofwat carries out a number of important statutory functions¹.
- ii. This statement sets out our objectives for and expectations of Ofwat, and the strategic priorities that we expect Ofwat to pursue in its regulation of the water sector in Wales².

2. Objectives for Ofwat

- i. We expect Ofwat to develop the regulatory framework as applicable to Wales on the basis of sound evidence relevant in a Welsh context. It must demonstrate how it has taken into account the specific circumstances of Wales when developing and consulting on new proposals relating to Wales. Where appropriate it should adopt a different approach for UK Government and Welsh Government regulated undertakers.
- ii. We expect Ofwat to challenge companies to deliver for customers on the basis of comparison across companies in Wales and England, and across sectors where appropriate, while making appropriate allowances for differences in the operating and legal environments of companies in Wales, and taking into account variations in the priorities of customers and other stakeholders
- iii. We expect Ofwat to take due account of current and future differences in both policy and law between the UK and Welsh Governments including where new obligations on water companies in Wales emerge.
- iv. Ofwat should have regard to how it can enable or incentivise companies to contribute to the delivery of Welsh Government policy and strategies. Ofwat should set out clearly how any of its major decisions are consistent with the

¹ Ofwat's statutory functions are principally to be found in the Water Industry Act 1991 (as amended, "the WIA"), and the statutory duties set out in section 2 of the WIA apply to Ofwat in carrying out the majority of the functions.

² The Strategic Priorities and objectives statement is issued under section 2B of the Water Industry Act 1991 in respect of Ofwat's relevant functions relating wholly or mainly to Wales.

Welsh Government's strategic priorities and objectives, for example when establishing the methodology for price reviews, presenting proposals for changes to the regulatory framework such as modifications to undertakers' conditions of appointment, or publishing determinations.

- v. Ofwat should consider the clarity and cohesion of its regulatory framework taken as a whole and in a specific Welsh context. Ofwat should have regard to the desirability of a simple, effective and efficient regulatory framework. Ofwat should seek to maintain a transparent regulatory framework that allows companies, investors and customers to plan for the long-term, whilst incentivising efficiency improvements.
- vi. We expect Ofwat to submit an annual report to Welsh Ministers summarising the steps taken and the consideration given to delivering on the objectives and priorities set out in this document.

3. Priorities for the economic regulation of the water sector in Wales

- 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.
- 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.
- 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.

- 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, and 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.
- 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.
- 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
- 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.