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Gweinidog Cabinet dros Wydnwch Gwledig a Chynaliadwyedd
Cabinet Minister for Rural Resilience and Sustainability

Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MA/LGRRS/2356/26

Ceri Davies,
CEO Natural Resources Wales

Dr. Marcus Rink,
Chief Inspector for Drinking Water

Dr. Chris Walters,
Interim CEO Ofwat

23 October 2026

Dear Ceri, Chris, and Marcus,

I am writing to you to set out the Welsh Government's intention in relation to the transition period for the water industry, and our priorities for the development of Price Review 2029 (PR29).

Firstly however, I would like to acknowledge the expertise and efforts you've contributed to developing proposals to improve oversight of the industry and in recognising the need for a different approach in Wales within the existing regulatory regime. I know you are as passionate about improving the industry as I am and I look forward to collaborating with you as we develop future proposals for Wales.

Delivering a system which works for Wales

The water sector is at a critical juncture, and we have the opportunity to build a regulatory system which works for Wales. My ambition is for a system that delivers clean and thriving rivers, lakes and seas, which are fundamental to provide the services upon which we all rely. This includes safe, sufficient and high-quality drinking water, supporting public health outcomes, and affordable services which are capable of meeting the needs of current and future generations.

Our Programme for Government commits us to taking a catchment-based approach to improve water quality, tackle pollution, and increase nature and climate resilience. To deliver on this we intend establishing a new regulator and system planner, so decisions about water are made in Wales for Wales. The water industry should deliver lasting public value for our communities and environment. We will work with regulators, water companies,

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn yr iaith honno ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

customers and communities to turn this ambition into measurable improvements, whilst maintaining essential services during any transition period.

I am committed to ensuring that Wales has the powers it needs to effectively regulate the water industry. A key step will be the alignment of the regulatory border with the geographic border between Wales and England, and I will continue to work with the UK Government to implement this for the start of AMP9 (2030). I expect you to work with my officials and water companies to prepare for this change. You should ensure that essential services are maintained, statutory requirements are met (including environmental protections), and customers are protected during this transition.

Transitional arrangements

Our current planning assumption is that there will be two phases of transition to deliver on our ambitions for regulatory reform and effective catchment management, dependent on the progress of legislative proposals. The first includes the establishment of the new regulator in England, with a Wales Unit focussed on the needs of Wales and Welsh customers. The second being the period when legislation is being developed in the Senedd until the establishment of a new body for Wales.

During this first transition period we expect regulators to maintain effective oversight of the water industry, supported by dedicated regulatory resources and capacity for Wales, embed relevant reforms within the existing regulatory regime, and continued progress on environmental improvement, public health protections and resilient service delivery while longer-term reforms are developed. Once established, the new integrated water regulator in England will temporarily oversee economic and drinking water regulatory functions for Wales, until such time as these can be transferred. This will provide continuity of service and regulatory oversight, ensuring there is no disruption for customers, water companies or stakeholders during the transition period. The Welsh Government will work with the new regulator to ensure it can respond to the needs of Wales. Natural Resources Wales (NRW) will retain its existing environmental responsibilities, and consumer advocacy and representation will remain a priority throughout transition with a more robust customer advocate representing customers in Wales and England. We expect NRW and the new regulator to develop a more integrated approach to regulation through an open, effective and collaborative working relationship.

Collaboration and early reforms

I recognise and welcome the ongoing work by the regulators to improve processes such as the upcoming joint insight report to give an overview of water company performance. I encourage you to continue liaising with my officials and to work together to drive improvements and embed the recommendations of the Independent Water Commission. This joined up and collaborative approach includes working effectively with your counterparts in England to ensure we can deliver on our ambitions for shared catchments. Planning for Price Review (PR29) is an important stage in our journey to improving the outcomes of the industry. Whilst the planning process will be undertaken within the existing regime, the investments will be delivered within an improved regulatory regime and I expect you to develop your methodologies in a manner which delivers on the priorities below, and to ensure that decisions which impact Wales, are taken by Wales. The priorities as presented to the Price Review forum are:

- **Affordability and fairness –** Investment should deliver clear public value, reduce inequalities, offer enhanced protection for vulnerable customers, and meet the needs of current generations without compromising the ability of the next to meet theirs;
- **Environmental improvement –** Prioritisation for actions which increase the resilience and functioning of ecosystems, especially through delivering measurable improvements in water quality and the condition of protected sites;
- **Drinking water security and resilience –** Planning and investment should focus on long-term and preventative planning, managing emerging risks, increasing system resilience (including at-source interventions), and increasing regulatory compliance and transparency;
- **Asset health and resilience –** Ensure a shift to greater investment in improving long-term infrastructure health and resilience, including through delivering key outcomes such as reducing leakage, increasing asset renewal and maintenance, increasing understanding of asset condition, and increased climate resilience;
- **Deliverability –** Taking a collaborative approach to ensure plans are deliverable and trusted by communities. Proposals should be, efficient, evidence-based, transparent, proportionate, and deliver for Wales.

Further detail can be found within the Annex to this letter. I will provide further direction to Ofwat later this year through an updated Strategic Policy Statement, to reflect the priorities of this Government, in addition to providing direction to the wider industry by working with the Price Review Forum and issuing Strategic Steers to the industry in early 2027.

I expect NRW to maintain a clear focus on securing the environmental outcomes needed for Wales throughout PR29 and any transition period. This includes effective regulation and enforcement, measurable improvements in water quality and protected sites, and action to improve the resilience of ecosystems. NRW should work closely with the other regulators to ensure environmental requirements are reflected from the outset in company planning and investment decisions.

I look forward to working with you all on designing a system which works for Wales and expect the water industry to develop their plans for the next price review in line with the ambition and planning assumptions outlined in this letter and Annex.

Yours sincerely,

Llyr Gruffydd AS/MS
Gweinidog Cabinet dros Wydnwch Gwledig a Chynaliadwyedd
Cabinet Minister for Rural Resilience and Sustainability

Annex – Supporting guidance on transition and price review

Delivering for Wales

The Welsh Government's approach to transition is designed to ensure stability for customers and investors, whilst continuing to address the climate and nature emergencies, as we work towards a new system for Wales in the future. The approach will provide flexibility to implement improvements where opportunities are identified to build towards a new system. In approaching change, the Welsh Government will:

- Use the framework of the Well-being of Future Generations (Wales) Act 2015 to guide an approach which embeds fairness, sustainability and public value;
- Take a considered approach to ensure stakeholder confidence, balancing stability with opportunity to deliver the best outcomes;
- Take a collaborative and trusting approach with key stakeholders, making the most of the collective expertise available to us to design the right outcomes and solutions for Wales;
- Put the expectations of customers in Wales at the heart of our thinking;
- Deliver environmental improvements to increase the resilience of our natural assets;
- Ensure that performance improvements are secured, statutory obligations are delivered, and essential services maintained;
- Identify and manage risks to our water reform programme ambitions and outcomes (linked to the Welsh Government's Well-being objectives) effectively;
- Work in partnership with UK government and ensure proper consideration of cross-border matters;
- Encouraging the exploration and trialling of different approaches to assess their effectiveness to better deliver outcomes and understand the opportunities for change.

As changes are introduced, ensuring continuity in the regulatory oversight of the water industry in Wales is a key priority. This oversight underpins and upholds standards in public health, environmental protection, and customer rights, and must be maintained as new structures are established. Any legislative changes will be carefully considered and consulted on in advance, and changes in the interim will be based within the legal framework, with clear organisational responsibilities established and communicated.

To ensure there is no gap in regulatory oversight for water companies in Wales, Ofwat and the Drinking Water Inspectorate will continue to provide economic and drinking water regulatory functions for Wales (including undertaking PR29), with these functions then overseen by the integrated regulator in England on a temporary basis. The Welsh Government is clear that decisions that affect Wales should be taken in Wales, and the new integrated regulator should include a strong and clearly accountable Welsh function with the authority, resource and capability to reflect Welsh law, policy intent and operational circumstances. It must retain and provide the specialist knowledge, relationships and institutional capability needed to maintain effective regulation and support a smooth transition to a Welsh regulator. The regulators should continue to work with my officials to identify the functions, expertise, and resources required to discharge their functions effectively for Wales during the transition period.

Regulatory independence will remain essential. Welsh Ministers will set strategic priorities and outcomes, with regulators remaining responsible for exercising their statutory functions

and reaching individual regulatory decisions. Welsh Ministers will set strategic priorities and steers to regulators, with regulators remaining responsible for exercising their statutory functions. This will provide a framework for regulatory decision-making and ensuring regulatory activity supports Welsh Government priorities for water, the environment and consumers.

The UK and Welsh Governments intend to commence provisions aligning the regulatory border with the geographic border, removing the current wholly or mainly basis of regulation, from the start of Asset Management Period 9 (April 2030). As regulators you should ensure that planning for PR29 reflects this arrangement, and that any operational, regulatory, customer, or financial risks are managed. Your approach should ensure continuity of water and sewerage services, statutory obligations are met, customers are protected (including those who are vulnerable or receiving financial support) and recognise the importance of clear communication. To support planning for this change, we expect regulators to work with the Welsh Government to ensure these protections are in place and facilitate a smooth implementation.

Water industry oversight and regulatory approach

The Welsh Government expect Ofwat to lead on developing an approach to regulation which embeds our commitments and moves towards a more ethical approach to water company oversight. This includes embedding the principles of the sustainable use of natural resources within decision-making and ensuring decisions actively support the well-being of future generations.

The scale of the water industry within Wales naturally lends itself to regulators developing a fuller understanding of the companies they oversee and regulate. The Welsh Government expects the regulators to work together to develop an approach where continuous oversight and proactive engagement allow them to build a better understanding of water companies' operating environments. Water industry regulation does not solely focus on economics, and the regulators should work together to ensure that they develop a common, comprehensive and rounded understanding of company performance, the actions required to improve performance, and ensuring efficiency of their approach to regulation (such as data and evidence sharing). The regulators should develop a supervision framework for Wales – cross-industry comparators should be retained where beneficial, and approaches should ensure that companies are able to achieve their wider outcomes. Officials will work with you to further develop this approach. This framework should clearly articulate how the regulators will work together to develop shared policies and processes for the water industry.

The Welsh sustainable development framework (including the principles within the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016), already enable the regulators to pursue their functions in a flexible manner (exercise constrained discretion) and allows them to maximise the benefits they deliver in discharging those functions. Ofwat and NRW should work together and engage other stakeholders, such as the Well-being of Future Generations Commissioner, to further explore and present findings on where this can be further applied to water industry regulation, and the barriers to current application.

In developing any policies as part of the transition or Price Review process, NRW should have special regard to the environmental principles and accompanying statement from

Welsh Ministers as required in the Environment (Principles, Governance and Biodiversity Targets) (Wales) Act 2026. The Welsh Government expects that Ofwat, the DWI and the future integrated regulator should also take these into consideration.

Planning framework

The final determinations for AMP8, developed during Price Review 2024, should continue as agreed and funded. The regulators will hold water companies to account for delivery.

PR29 will be run as a 5-year price review and set the costs for the period 2030-2035 (Asset Management Period 9). The process will be led by Ofwat and its successor body. The Welsh Government expect Ofwat, its successor body, other regulators and the wider sector to ensure that their methodologies and guidance to companies for PR29 is tailored to Welsh priorities and outcomes. Ofwat should ensure that the PR29 methodology (which will cover both England and Wales) realises the benefits of taking a joint approach to regulating the industry, whilst reflecting any differences in approach for Wales where appropriate.

For PR29 the Welsh Government expects regulators and companies to:

- Work with the Price Review Wales Forum, which has been established to increase collaboration and transparency in the PR29 decision-making process;
- Clearly prioritise and deliver in-line with the updated Strategic Steers (to be issued to the Price Review Forum) to ensure an affordable business plan can be produced;
- Take approaches to planning processes that are proportionate, collaborative and deliver multiple-benefits – providing solutions which secure the best outcomes for the environment and society;
- Ensure asset health, maintenance, and resilience are embedded in water company investment plans;
- Deliver actions within the PR29 planning processes that increase resilience, improve services for customers and provides meaningful environmental improvement in the long-term – embedding the 5/10/25-year planning horizons;
- Develop approaches which provide a stable and predictable framework which builds investor confidence;
- Take an iterative and open approach to developing plans which drive investment, including implementing aspects of open book regulation where this would be beneficial;
- Streamline processes, where this will achieve the same or improved outcomes, whilst providing further capacity to industry and regulators – learning from previous experiences and testing new approaches where beneficial;
- Develop processes to improve data consistency, economic appraisal and stakeholder engagement between plans – engaging to ensure cross-border inter-operability and applying best-practice to Welsh methodologies;
- Demonstrate how company plans and investment will strengthen rural resilience and deliver lasting community benefit, including by supporting local employment and skills, resilient infrastructure and sustainable supply chains

Ofwat should ensure that the methodology for PR29 is developed to deliver best value for customers and the environment. We expect that the following area are considered:

- Rationalising the performance commitment framework (including ODIs and performance commitment levels) so incentives are meaningful, understandable and aligned with Welsh priorities;

- Greater consistency and transparency in setting the cost of capital, aligned with Wales' approach to affordability, investment and public value;
- Withdrawal of the Quality and Ambition Assessment and the design of a new process;
- Improved consistency in scenarios and assumptions in water industry planning, including economic appraisal and assessment of benefits which deliver for well-being and the sustainable management of natural resources;
- An increased understanding of asset condition and processes to ensure that long-term investment in asset condition is prioritised.

The Welsh Government does not support a further round of standalone Long-Term Delivery Strategies for water companies in PR29 but would prefer the focus of regulators and companies to be on developing methodologies which enable individual plans to consider long-term trends and deliver against the Well-Being Goals.

The Welsh Government will work with the UK Government and regulators to ensure coordinated planning on cross-border catchments. Where there are new functions established in England, such as the piloting of Regional Planning, we expect relevant areas (such as those on the border) to involve the Welsh Government and appropriate regulators where decisions are being made which impact Wales. Welsh Government will continue to ensure that appropriate mechanisms for cross-border engagement are maintained, working in partnership with UK Government. Where there are existing cross-border engagement mechanisms, such as the Regulators Alliance for Progressing Infrastructure Development (RAPID), we expect that decisions impacting Wales are made in Wales.