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Finance and Networks Division
Ofwat
Centre City Tower
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Dear Sir/Madam

**OFWAT Consultation: Setting price controls for 2015-20.
Business Planning expectations 'A consultation'.**

Thank you for the opportunity to comment on the latest consultation on the approach to the periodic review process. Alun Attwood and Mark Squire from my team met with Rob Powell of Ofwat and officials from Welsh Government recently to discuss the proposals set out in the consultation. It was a useful meeting and I hope we will be able to build on this way of working over the coming months. The Chair and Chief Executive of Natural Resources Wales (NRW) are keen to build a relationship with Ofwat to ensure both organisations deliver the shared outcomes identified by Welsh Government.

NRW welcome the intention to simplify the periodic review process. NRW believe it is vitally important that water company Board's own their business plans. This emphasis will ensure plans reflect the priorities within particular geographical areas and address the needs and priorities of their customers. NRW hope that the proposed approach will ensure that Wales' specific issues and priorities can be addressed in the business plans of the relevant water companies in Wales.

The consultation sets out the role of the new independent customer challenge groups (CCG). At the moment there appears to be an expectation that CCGs will report both consumer and environmental concerns, with environmental regulators, including NRW, contributing to each CCG assessment of a water company business plan. The consultation indicates that the CCG report will be crucial in determining whether water companies' business plans are assessed as 'enhanced', 'standard' or need 'resubmission'. NRW recognise that these groups potentially have an important role to play. Our experience in the Dŵr Cymru and Dee Valley Groups highlights the lack of understanding by the water company and the CCG members of their role, remit and status. NRW believe more work is needed to provide this clarity to ensure that the CCGs can fulfil their remit in the regulatory process.

Aligned to these concerns, we do not believe it is appropriate for NRW's assessment of water company plans to be part of the CCG report. NRW has a specific set of statutory roles and responsibilities related to the National Environment Programme, Flood Risk

Management and Security of Public Water Supply. It is important that NRW provide independent advice to Ofwat on these components of the plan to ensure that we discharge our duties. Providing our advice solely through the CCG risks dilution of advice and the introduction of unnecessary bias. We believe there needs to be a separate role for environmental regulators to work with Ofwat to assess the degree to which companies' business plans meet environmental obligations and deliver secure supplies of water. We struggle to see how the CCGs can operate as the main forum for engagement with environmental regulators. In Wales we have the PR14 forum to express views but this is not directly linked to the CCG role.

NRW would expect an enhanced water company business plan to show a commitment to improved environmental performance, compliance with statutory obligations and an innovative approach to catchment solutions. Aligning this with its obligation to meet security of supply and ensuring best value for customers and the environment in Wales through the Water Resource management planning process are perceived to be environmental measures of a high performing company.

NRW welcome the very clear signal to water companies that they must deliver their statutory environmental obligations. Nevertheless, the message is not so clear on longer-term outcomes related to climate change, flood risk management and water efficiency. There is a risk that opportunities to develop innovative catchment solutions, which seek to deliver multiple benefit with partners in line with the ecosystem approach, may be lost.

Given the mis-match in timetables for the second cycle of river basin management plans and PR14, NRW believe there needs to be greater clarity to companies on making provision for the outcomes of the second cycle River Basin Management Plans, in their final business plans. We believe the proposition for water companies to include an appropriate allocation to meet these requirements in their business plans is required.

In our recent meeting at Welsh Government offices, we discussed the importance of ensuring funding mechanisms are in place to allow water companies to recoup within the period, the costs associated with new statutory environmental obligations or a change in permit standards. The "Change Protocol" currently meets this need and we support its continued use.

If you require further information on any of the points raised please contact Mark Squire on 02920 466135 or via email at mark.squire@cyfoethnaturiolcymru.gov.uk.

Yours sincerely



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Croesewir gohebiaeth yn y Gymraeg a'r Saesneg