

Rt Hon Ranil Jayawardena MP

Secretary of State for Environment, Food and Rural Affairs

20 September 2022

Dear Secretary of State

First, may I congratulate you on your appointment and thank you for inviting me to attend the video conference meeting on 7th September.

You will be aware that *in Wales* water is a devolved matter, therefore as a water company based '*wholly or mainly in Wales*' (although we serve 100,000 customers in England), the policy framework in which we operate is set by the Welsh Government. In this context therefore our position is different to the other companies who attended the video conference, but for information, I have set out our responses to the five topic areas that you covered:

1. Environmental Performance – In 2020 we achieved a 4* performance rating under the Natural Resources Wales version of the annual Environmental Performance Assessment (EPA). In 2021, this dipped to a 3* outcome for the year, primarily as a result of a deterioration in one parameter within the EPA measurement framework, covering waste water treatment compliance. We were naturally disappointed with this, but I am pleased to say performance against this measure has improved this year. We have an underlying track record of year on year improvement in terms of our waste water treatment performance achieved through our long term reliability strategy, with increased deployment of automation and sensing equipment to enable a faster response to potential problems. More broadly, EPA performance across all its elements and as a key indicator of our overall environmental performance, is subject to regular rigorous review by our Board.
2. Sewage Discharges from Storm Overflows – By way of background, in Wales we have the best standard of coastal bathing water in the UK, with 15% of the UK coastline and 30% of the Blue Flag Beaches. In terms of river water quality, 41% of rivers meet *good ecological status*, as defined under the Water Framework Directive (WFD) compared to 14% in England. But for the avoidance of doubt, we know we have much more to do to accelerate and achieve further improvement. Aligned to this we fully understand that our customers and society more generally see this as an area of priority for us. We are playing our part to develop and deliver the *Wales River Quality and Storm Overflow Roadmap* improvement plans which have been developed and agreed in partnership with Natural Resources Wales, Welsh Government and Ofwat. We are planning action to ensure that by 2030, that no water body designated under the WFD in our operating area, fails to meet *good ecological status* as a result of our intermittent storm overflow CSO or indeed continuous waste water treatment works discharges..

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We were amongst the first companies to install CSO remote monitoring and have over 99% coverage of CSOs in our supply area. Linked to this, we were one of the first companies to provide open and transparent overflow operation information on our website. This has now been improved with a geospatial mapping system and by 2025 this service will also provide real time alerts. For many years we have engaged with organisations such as *Surfers Against Sewage*, and have an agreed CSO notification process in place with them and a range of other water user groups across our operating area. Next month we are embarking on a mass communication exercise with all open swimming groups in our area to identify opportunities to develop further alert systems and to target opportunities to work with these groups on improving river quality for those stretches of rivers where bathing occurs.

From evidence recently reviewed at the *First Ministers Phosphate Summit*, which took place on 18th July, the major cause of poor river water quality in Wales is due to nutrients and in particular phosphorous. Tackling this will enable faster, further improvement towards meeting the Water Framework Directive standard. To bring this to life, in cooperation with Natural Resources Wales and the Environment Agency, we have recently funded pollution source modelling on six of the *Special Areas of Conservation (SAC)* rivers across our operating area. The evidence emerging from this work indicates that, for example, CSOs on the river Wye contribute around 1% of pollution loading, whereas discharges from our waste water treatment works (Phosphorous) contribute 25%. We are already tackling this with over £60m of investment at treatment works on the Wye to be completed by 2025. We are also looking to bring forward more investment to reduce our impact even further over the next three years. For completeness, the remaining 70% phosphate load on the Wye comes from agriculture, rural land use, and other sources such as private septic tanks. We have proposed the innovative idea of catchment based consenting to reduce phosphorous levels with our environmental regulator which would enable, faster, cheaper less carbon intensive solutions if we were to develop phosphorous reduction solutions jointly with other sectors, rather than deliver traditional solutions purely at our existing assets.

Also on the Wye, we are active members of the Nutrient Management Board led by Herefordshire County Council and we are supporting the development of several wetlands, some on our sites, to help reduce phosphorous levels further and to enable development to proceed in these areas. The first at our Luston waste water treatment works, is being brought on line in the coming weeks and will facilitate 650 new homes being built in an area that was previously subject to a planning embargo linked to phosphate levels in the river catchment.

In summary, as regards CSOs in our operating area, we will achieve great river quality improvement through joint collaborative working with our environmental regulators and other sectors such as agriculture, with reducing phosphate levels the main short term priority. That said, we plan to accelerate investment in reducing CSO impact through our longer term plans. For the period 2020 -2025 we had in our AMP 7 plan £80m targeted specifically at CSO

improvement, and we have boosted this with a further £140m to 2025. (Please see further information in Point 5 below.)

Also, in terms of CSO impacts and urban flooding mitigation, it is worth noting that we have pioneered the use of nature based sustainable urban drainage systems (SUDS), development. Our 'Rainscape' programme in Llanelli is the biggest retrofit of SUDS in an urban environment, in the UK to date (Severn Trent are currently proposing a similar approach in Mansfield). We have also delivered significant schemes in Cardiff and Llandudno. These schemes seek to remove large volumes of surface water from the combined drainage system and utilise green spaces and tree planting to absorb water that otherwise overwhelms the sewerage system causing CSOs to operate. Doing more of this is a priority for us in AMP8 and we need regulator support to enable this. In Wales, we benefit from Welsh Government legislation which prevents surface water connections to sewers being made by new developments. We also support Welsh Government's plan to ban single use plastics, including 'wet wipes' containing plastics, and we would support the incorporation of this into UK legislation as the benefits to the industry and environment are significant.

3. Water Security and Drought – due to the unprecedented conditions of this spring and summer, we have had to introduce a temporary use ban in just one of our supply zones covering 60k properties (< 2% of our connected properties) in Pembrokeshire. I am pleased to report that with recent rainfall and operational mitigation we are very likely to lift the ban in mid October. We have an investment proposal in the later stages of our AMP 7 plan to help mitigate recurrence of the circumstances in Pembrokeshire and are looking to bring this investment forward to 2023/24.

The recent record temperatures and sustained dry weather are timely reminders of the threat of climate change. Our long term (25 year) Water Resource Management Plan, (WRMP) takes into account the latest climate change projections. This plan which will be issued for wider consultation in a month or so and will also take account of factors and lessons learnt this year. Our current WRMP plan indicates that long term security in our operating area will be provided through increased levels of 'connectivity' between our supply zones, further reduction in leakage and demand management through the assistance of our customers. Again, in light of circumstances this year we will review this to take account of the potential need to support this with additional supply side water resource, although this appears at this stage not to be necessary.

Demand management is arguably the most challenging aspect of our water use reduction strategy. It would be helped by further UK and Welsh Government focus on the value of water as a precious resource through messaging and engagement with society. Also, practical support for water efficiency classification of 'white goods' would help enhance efforts to reduce personal water use. Increasingly, we are also raising the profile of the carbon cost of water, particularly in relation to use of water in the home.

We are currently the largest exporter of water to other parts of the UK, mainly through the water transfer from our Elan Valley dams to Birmingham (Severn Trent). We are also participants in the *Water Resources West* group that brings together regulators and water companies adjacent to our operating area to assess opportunities for inter-company transfers. I am sure that you will understand that water, for reasons of recent history, is a highly emotive subject in Wales and any further opportunities to transfer water can only proceed with Welsh Government direction. For us it would have to mean no detriment to our customers in terms of their own supply security or unacceptable impact on the environment, and would need to be at a commercially acceptable price from which our customers could benefit.

4. Leakage – We have reduced leakage across our operating area by 50% over the last 20 years and are targeting a further 15% reduction by 2025. We realise this is rightly a sensitive subject for our customers and they expect that this is another priority area for us. In light of this, our AMP 7 plan includes a unique and innovative element to our overall reduction plan, whereby we proactively help customers with leakage on their supply pipes (in their ownership), or within their properties. This programme, *Cartref, which is Welsh for Home*, has seen us fund an extensive programme to fix pipes or replace leaking cisterns, taps etc in customers' homes. There is no charge for this service. We do this because up to 50% of total leakage occurs on customer owned plumbing. When you take this into account, our own level of leakage is comparable with other leading western nations.

In terms of our own water network, we have over 600 people engaged in finding and fixing leaks on a daily basis. This is a continuous process and will remain a key operational activity for us. We expend £20m per annum to reduce leakage supported by an additional £80m investment in pipe replacement by 2025. In AMP 8 we will be proposing a further 10% reduction in leakage. We were also recently awarded £2m funding from the Ofwat Innovation Fund to lead further work on reducing the challenging area of background leakage associated with losses on both water company and privately owned water supply systems.

5. Dividends and Rewards – We are unique not only in the water industry, but also in the utility sector in England and Wales as the only company with a *not for shareholder / not for profit* business model. Whilst we are a private business and we strive to make a profit, all our gains are retained for the benefit of customers. This has meant that in the twenty years since our formation in 2001, we have returned over £400m in the form of additional infrastructure investment or financial assistance to those who struggle to pay their water bills. In addition, we have one of the largest social tariff schemes, benefitting customers who struggle to pay their water bills, of any utility in the UK.

In the current regulatory period, following a review of our financial plan for the period, we have identified the ability to allocate an additional £100m investment in our waste water

infrastructure. This will be used to further improve river quality and will be on top of our £840m regulatory environmental investment programme being delivered in AMP7.

We operate with a single unified Board at holding and operational company level, made up of a majority of independent non-executive directors, all of whom have relevant expertise and a good understanding of our purpose. That purpose is clearly and unambiguously aimed at delivering high quality service and sustainable outcomes. Underpinning this, we have 60 Glas Cymru Members, individuals who have no financial stake in the company and who undertake an important governance role in holding the Board to account. Members are drawn from the communities we serve and representing for example, third sector organisations, those with environmental expertise and others with a public service or private enterprise background. The combination of a strong independent Board and Glas Membership demonstrates a clear and effective governance framework.

Turning to personal reward, we operate in line with the UK Corporate Governance code, and decisions on Executive remuneration are taken by a Remuneration Committee whose members are all independent non-executive directors. Linked to the principles of our model, we apply a 15% discount to benchmarked salaries for executive directors. In addition, the variable pay scheme for executive directors is clearly linked to the performance objectives of the business including customer service objectives. Our reward strategy is also regularly reviewed by Glas Members.

I trust I have been able to demonstrate to you that Dwr Cymru is committed to delivering quality service to our customers and has a responsible attitude to the environment.

Please do not hesitate to contact me if I can be of any further assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Perry', with a stylized flourish at the end.

Peter Perry
Chief Executive