



Severn Trent Water

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Dear Paul,

Thank you for the opportunity to comment on the Welsh Government's draft Strategic Priorities and Objectives Statement to Ofwat.

Severn Trent is proud to serve our customers in Wales and we look forward to being regulated under the Welsh Government's policy framework.

We welcome the overall approach being taken by the Welsh Government to water policy and particularly support:

1. The importance attached to supporting vulnerable customers. Bills need to be kept affordable overall and targeted support needs to be available for those who genuinely struggle to pay.
2. The focus on sustainable development. With the approach set out in the Well-being and Future Generations Act, Wales has the opportunity to be a global leader in sustainability. The water sector should be expected to contribute to this leadership.
3. The promotion of whole catchment approaches to managing water resources. This approach makes sense from an environmental and economic point of view. The presumption in favour of sustainable solutions set out in the draft guidance is particularly welcome.

In the context of our support for the overall approach set out in the draft guidance, we wonder whether the following points would be worthy of further *consideration* by the Welsh Government:

1. Placing an even greater emphasis on customers. Effective social tariffs and a general drive to keep bills affordable (for this and future generations of bill payers) are absolutely necessary, but there is scope to do more for customers. Priorities should include ensuring future investment plans are shaped by customers' priorities and that customer service performance is effectively measured and reported on.
2. Setting out clearer priorities for how it expects the water sector in Wales to evolve. The draft guidance sets out 10 objectives for the regulation of the sector, but it does not set out

priorities for change. Greater clarity about the government's one or two priorities for the evolution of the sector would maximise the likelihood of this change being realised.

3. Introducing a market in Wales in the limited but important areas of water resources and sludge processing, as a means of achieving better environmental and economic outcomes. Markets in these two areas might help to drive customer-benefiting efficiencies, but they would also have other important advantages:
  - They would reveal the full and fair cost of water trades. We wholly agree that bulk supply agreements should reflect the arrangement's full costs and not be subsidised in anyway (as set out in Objective VII of the draft guidance) and believe that a market for water resources would help expose any distortions and/or allay fears.
  - They could be used to achieve better environmental outcomes. Designed correctly, a market would help achieve the most environmentally efficient allocation of resources.
4. Including a clear statement in the guidance about how to achieve intergenerational fairness, reflecting the spirit of the Well-Being of Future Generations Act. One way forward might be to ask Ofwat to report on how it has challenged companies to ensure that the resilience and environmental programmes share the financial cost over 25 year periods.
5. Whilst the guidance should rightly set out clear policy objectives for Ofwat, it should also reiterate the Welsh Government's ongoing commitment to independent regulation. Investor confidence in the political independence of the regulator, especially regarding all aspects of price setting, is a key factor in ensuring cost-effective investment into the sector. Any action that increases the perceived political or regulatory risk in Wales could, in the long run, be damaging for the Welsh economy as a whole, not just the water sector.

We would welcome the opportunity to meet with you to discuss further, if helpful to the Welsh Government.

Yours sincerely,

Andrew Fairburn