

Centre City Tower, 7 Hill Street, Birmingham B5 4UA
11 Westferry Circus, Canary Wharf, London E14 4HD

By email

Llyr Gruffyd MS
Chair, Climate Change, Environment and Infrastructure Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

20 March 2024

Dear Mr Gruffydd

Ofwat response to 'Report on performance of Dŵr Cymru'

I would like to thank you and the committee for inviting me to provide evidence to your inquiry on the performance of Dŵr Cymru in November. We welcome the committee's report and its recommendations, such as requiring Dŵr Cymru to set more stretching targets on reducing pollution incidents and to demonstrate how they are holding executives to account.

As I set out in the evidence session, Dŵr Cymru was identified as a lagging company, along with a number of other companies in England, in Ofwat's latest water company performance report. We are engaging closely with Dŵr Cymru to ensure they address these performance issues and hold them to account. A key element of that is our price control and we have adopted a collaborative approach with Welsh government and Dŵr Cymru for the PR24 period.

PR24 will present all water companies with a sizeable challenge to not only improve performance for customers and the environment but also deliver the significant step-up in infrastructure investment that is required over the next five years. As this investment partly comes from customer bills, Ofwat is ensuring we have all the tools at our disposal to hold companies to account both in terms of delivering that much needed infrastructure and improving performance across the board.

Ofwat will continue to hold Dŵr Cymru to account when their performance does not meet their obligations. As you and the committee are aware, Ofwat announced on 13th March 2024 the outcome of our enforcement investigation into the company. We found it had breached two licence conditions on failures in governance and misreporting data to Ofwat on its leakage and per capita consumption (PCC) performance. As a result, Ofwat required Dŵr Cymru to pay £39.4m of redress for customers to compensate them for these failures as well as commit to an additional investment of £59m into leakage and PCC management in the

current 2020–25 price review period. Dŵr Cymru is now the water company furthest away from its end-of-period leakage target which we will be closely monitoring going forward.

Recommendation 6 of the committee's report called on Ofwat to "*clarify whether and how its performance-related pay recovery mechanism applies to Dŵr Cymru, given its 'not-for-profit' status*". The performance-related executive pay (PRP) recovery mechanism is a price control tool which enables Ofwat to adjust revenue allowances if a company does not meet the expectations we have set out. As such, the mechanism applies to all large regulated water and sewerage and water only companies we carry out price control determinations for, regardless of the company's ownership status and this therefore includes Dŵr Cymru.

We consider that all companies should be meeting our expectations and that customers should not pay for awards when they do not. In Dŵr Cymru's case, if Ofwat decided that an adjustment was needed we would, as for all companies and as outlined in the guidance for the mechanism, reduce the revenue which Dŵr Cymru is able to recover from customers to ensure that they do not pay for any PRP awards that are based on decisions which do not meet our expectations.

Ofwat has been very clear that companies' PRP needs to be linked to performance for customers and the environment. In this regard, we welcome the committee's Recommendation 7 for Dŵr Cymru to commit to an ambition to achieve 100% alignment of its PRP to overall performance to customers and the environment.

As you might be aware, Ofwat is intending to consult later this year on whether to modify licences to enable Ofwat to prohibit executive PRP awards if a company has committed serious criminal breaches. This would look to enhance the current PRP recovery mechanism and add further weight to Ofwat's expectation that bonuses should align and reflect the company's performance for customers and the environment.

More detail on this consultation (which we propose will apply both to companies in England and Wales) will be provided in the coming months and I would be happy to continue to keep the committee updated on this work.

Yours sincerely



David Black
Chief Executive