

Shaping the future of water governance in Wales

Consultation response

Hafren Dyfrdwy
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1. Overview

Introduction

In February 2026, Welsh Government published a Green Paper on Shaping the Future of Water Governance in Wales, which includes its response to the Independent Water Commission's recommendations. It sees this moment as a “*once in a generation opportunity*¹” to shape the future of water governance in Wales – sentiment that we fully echo. We can see that the Paper has taken the opportunity to consider where policy and legislation may need changes to achieve the Welsh Government’s vision for water in Wales.

Overall, we can see that a clear direction of travel has been set and agree that strong foundations will be needed to make sure that the new regime in Wales has the full confidence of stakeholders (including customers and the wider public) and will stand the test of time.

We recognise that the Paper is very much an early step in the reform process in Wales and that, naturally, it isn’t seeking to provide all the answers at this stage. It also means that, logically, there are a range of areas that will require developing further and that the voice of stakeholders has an important role to play. From our perspective, key areas for further development include (i) the need to balance competing objectives, (ii) building-up the regulatory regime in Wales, (iii) cross-border considerations and (iv) readiness for PR29.

Balancing competing objectives

The Green Paper has set out a range of different objectives that, individually, are desirable and logical. The challenge that is yet to be addressed is **how these different objectives will be balanced and prioritised in-the-round**, particularly those that would appear to pull in different directions, such as affordability and investment. It will also be important to decide **who should own both this prioritisation and the balancing of trade-offs**, and **how the voice of customers will be heard** in this process.

Building the regulatory regime

In setting up a separate, independent regulator for Wales, building the required **capacity and capabilities** will be critical to its success. It’s important that the scale of this task is not underestimated as it will be the first time that such regulatory functions will be located in Wales, meaning that time may be needed to put the local talent pipeline in place.

Linked to the building of regulatory functions is the **extent the regulator in Wales should look to do things by itself**, versus **working with its counterpart in England to harness joint-working opportunities on a long-term basis**. For both regulators, this could boost understanding, expand the range of data and information available, and strengthen the insight used to take regulatory decisions. Overall, this should then help strengthen the confidence of stakeholders and customers in the new regime. From a Wales perspective, we could see second-order benefit emerge from the cost and resource sharing that this would involve that helps keep the regulatory regime’s costs comparable with England on a per-customer basis.

¹ <https://www.gov.wales/green-paper-shaping-future-water-governance-wales>

In terms of the new regime's **supervisory functions**, we believe it is crucial that these are **responsive to both risk and company size**, if it is to be of overall net benefit to consumers, investors and the environment. A risk-based approach offers the dual benefit of a lighter-touch where risks are low or being managed well and allowing for closer supervision in areas posing greater or increasing levels of risk.

Governance and accountability

Over the last two years, there have been a lot of changes on governance and accountability. We consider that it is essential for these to be properly embedded before deciding on the need for and shape of further changes. To do otherwise will undermine the sector's ability to attract the best talent and deliver improvements.

Cross-border considerations

This potential for overlap raises a further logical question as to **how far economic regulation should specialise for Wales compared with retaining consistency with England** – consistency that could help boost confidence in the regulatory regime for customers, stakeholders and investors. For customers and stakeholders, this could include a joined-up approach on cost, efficiency and deliverability. For investors, this could mean a common approach to risk and return (including the cost-of-capital).

Irrespective of how economic regulation does evolve, Wales and England will need to collaborate on cross-border matters such as catchments (e.g. Severn and Dee) and shared markets (such as sludge). This then raises **the need to decide how best to manage cross-border interfaces and decision making**.

Readiness for PR29 and beyond

Given we are at the Green Paper stage of the reform process in Wales, it's logical that certain aspects of the intended new regime will look rather more conceptual than provide a detailed vision. At the same time, the looming delivery schedule and drumbeat for PR29 mean that there are aspects that will need fleshing out and developing rapidly.

While the transition plan will provide the essential stepping stones to full implementation of the new regime in the early 2030s, there are areas that will need to progress at a faster pace to make sure they are future ready in time for PR29. Key amongst these are (i) making sure that 5/10/25-year planning is set up to play a full role in price review determinations, and (ii) incentivise companies to keep delivering performance improvements for customers in a regime that has narrowed the range of financial incentives to reduce overall risk.

In our view, the longer-term strategic nature of these areas would make them sufficiently important for inclusion in the next steps of the reform pathway, which Welsh Government intends to publish following this consultation.

2. Detailed response

Strategic direction for water in Wales

1) What factors or priority areas should Welsh Government consider when setting the strategic direction for the water system in Wales?

An effective long-term water strategy at the national level hinges on having a quantified understanding of the water needs of all water users across Wales. This is critical for identifying which sectors are likely to face supply demand deficits – essential information for a resilient, sustainable and affordable water system that meets the needs of water users without causing harm to the environment.

The Water Resources Management Plan process is well established and well defined. Following industry best practice, water companies have developed a sound understanding of the current and future risks to their systems. Strategic planning in other sectors, such as agriculture and energy is not as well established. As a result, there's no national or wide-scale water resources planning in place for any other sector. Therefore, these industries will need guidance on how to create their own water resource plans or feed their quantified water needs into a national strategy – work that needs to start as soon as possible given the drumbeat for PR29. In particular, clear guidance will be needed to ensure that the burden of investment for water resources and environmental improvements on behalf of these other sectors is not shouldered by water company customers.

In Wales, around 2% of the population uses a private water supply, so it's important that they are given due consideration in a national strategy. According to the last DWI report (2024), there are 14,904 private supplies in Wales. While an assessment by Welsh Government in 2021 estimated that there are a further 41,764 unregistered private supplies. Consequently, this potentially adds significant uncertainty to the current and future water needs in Wales.

Embedding an understanding of the value of water in everything we do is crucial. With the national curriculum now including an environmental focus, the next step will for water and the value of water to become part of the national psyche.

2) How can the Price Review Forum and a potential Ministerial Statement of Water Industry Priorities (MSWIP) best support transparency and effective delivery? If introduced, what priorities should MSWIP include?

For an MSWIP to maximise opportunity for influence and impact, it will need publishing during the early phase of the Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plans development (DWMP).

This prompt timing will be essential for allowing the long-term strategies to incorporate relevant requirements and priorities, as well as giving water companies sufficient time to properly formulate how to implement these. This is because both the WRMP and the DWMP feed into the water companies' business plans and therefore need developing and publishing well ahead of business plan drafting.

From a water resources perspective, the main priority would likely include (i) water efficiency and water reuse, (ii) sustainable farming, (iii) climate resilience of water resources, and (iv) water quality and promotion of Lead-Free Wales. In the case of sustainable farming, this could introduce a need for farmers to use solutions such as smart water butts to reduce abstraction from the environment for

activities where grey water would be suitable, storing surface water in ponds to reduce flood peak flows and enable use of the water for irrigation and livestock.

3) What milestones or review mechanisms should be built into the strategic direction to ensure accountability and alignment with Welsh priorities?

We would recommend that the Water Strategy should be reviewed and updated on a five-yearly cycle, and that this is done sufficiently in advance of the upcoming water price review. This will allow it to adjust for changing priorities, to face into new and emerging issues, and to retain a 25-year time horizon. We also consider it important for the strategy to take an outcomes perspective so that water companies have sufficient discretion to devise optimal solutions, choose the most appropriate inputs and deliver efficiently.

We would also recommend that this strategy is accompanied by a Strategic Policy Statement that bring colour to what the journey over the next 25-years is expected to look like. Such a statement should set out the relative priorities across different outcomes and expectations on the pace of progress towards these outcomes. This will then allow water companies to reflect these in their business plans and for the regulator to take them into account when making its determinations.

More broadly, with Water Resources Management Plans moving towards adaptive pathway planning, the Wales Water Strategy could follow a similar approach – considering potential futures, monitoring plans and triggers to move to a new pathway.

Planning together for a resilient Welsh water system

4) Do you support establishing a National System Planning Function for the water sector in Wales? Where should it sit, within the new economic regulator, as an independent body, or integrated into another Welsh Government or arms-length body functions?

We are supportive of a National System Planning function. We expect a key benefit would be the creation of national datasets and long-term projections that ensure there are a common set of assumptions for the sector. This would then allow, for example, water companies to use these in developing their WRMPs, DWMPs and business plans.

We also recognise that setting up a successful National System Planning Function will not be without its challenges. One of these will be its ability to manage and accommodate the expectations of different key stakeholders, particularly as the function will likely be embedded within one of those stakeholders. However, we do not see this as an insurmountable challenge given the presence of a collaborative mindset that the key stakeholders already buy into and hold by. We would propose that the planning function should make sure to harness collaboration so that expectations are managed and accommodated successfully.

We believe the function will need clearly defined boundaries to make sure that it does not stretch into areas that are the responsibility of water companies and where the companies require discretion. The importance of discretion for companies should not be underestimated given its implications for risk and the attractiveness of the sector to investors.

In terms of where the function should sit, there are pros and cons across the different options. We would be less inclined to have it as a separate, independent body, given the objective of trying to improve integration across the sector. We would be similarly inclined to avoid placing the function directly within a Welsh Government body or function, given the risk that investors could view this as politicising the role and its influence over companies. This need for independence therefore points to

including the function within the new economic regulator, a decision that would also support improved integration for the sector. While NRW might make for an alternative choice, it does have a much wider remit beyond water resources that it also needs to maintain its focus on – a focus that could come under pressure were it to take on much greater responsibilities in the water space.

5) How should water industry investment planning cycles (e.g. 5, 10, and 25 years) balance affordability, resilience, and environmental priorities?

We consider that the approach to balancing priorities across the investment planning cycles should be principles-based. This will provide flexibility, ensure an outcomes focus and increase the likelihood it stands the test of time. It will also create greater room for evolution than would be possible under a rules-based approach.

In practice, a successful principles-based approach would likely include expectations to work collaboratively with key stakeholders, involve consumers, and consult with stakeholders and consumers.

In terms of the priorities that would need balancing, we would strongly encourage that *investability* is added to the list. Ultimately, this will underpin whether the other priorities of affordability, resilience and environment can even be delivered.

From the perspective of WRMPs and DWMPs, these already plan to a longer timescale. The challenge they face is that in regulatory requirements, changes to methodologies and environmental considerations often result in changes to which options are selected beyond the five-year business plan period. This creates an opportunity for a clearly defined, long-term national strategy, with targets, to help water companies plan spending needs beyond the usual five-year business plan cycle. Reducing “surprise” changes to targets or having clear milestones which flag if or when targets are likely to change would also smooth spending profiles. Affordability, resilience and environmental priorities should then be balanced by assessing the best value plan.

The current WRMP guidance requires companies to deliver a plan that results in the required level of resilience and meets the environmental standards, delivering the best outcomes for the cost – an approach we support. We also recognise there will be circumstances where levels of investment greater than that considered affordable will be required, meaning alternative ways to fund these will be needed. It would be beneficial to provide example pathways for such funding and how these could be successfully navigated in order to meet environmental standards that are higher than the level customers would be willing to pay for through their water bill.

6) What do you see as the added value a system planning approach could bring? What would your priorities be for implementing it in Wales?

We see a system planning approach as an opportunity for greater pragmatism that (i) recognises where we are today, (ii) sets realistic plans, milestones and requirements for progress, and (iii) is conscious that trade-offs are necessary. In turn, this would help increase understanding and build more realistic expectations across stakeholders, customers and the wider public. Ultimately, it could make an important contribution to the legitimacy of the sector in Wales.

Such an approach also stands to bring benefits more widely across the Wales economy. We can see that having centrally created and maintained national datasets and long-term projections – growth, climate change, water needs for hydrogen power and data centres etc – would be really useful for all industries when creating their business plans and long-term strategies. This is an area that a national

system planning function could add value, making sure assumptions and performance oversight are consistent.

7) How should cross-border relationships with England be managed?

Currently cross-border relationships are managed collaboratively e.g. River Severn regulation. Hafren Dyfrdwy is a core member of Water Resources West and in this capacity has helped develop the Water Resources West Regional Plan. As England moves to a regional planning system, potentially drawn up on different boundaries this could make the management of cross-border relationships more difficult as different priorities arise. However, within the current set up it is recognised and accepted that the Wales approach to aspects of water resources planning such as environmental destination is different to that applied in England. Maintaining this level of understanding and continuing to ensure that Wales specific guidance, approaches and legislation are in place and enforced will be key.

The Welsh water companies should continue to be involved in the relevant regional group to ensure the needs of both sides of the border are considered in the English regional plans.

Modernising our legislative framework in Wales

8) Do you agree the current water legislative framework for Wales requires amendment? Which areas should be prioritised for review, and why?

We see opportunities to benefit from planned and targeted amendments to the legislative framework for Wales. For example, in overall terms, streamlining and simplification would be helpful to practitioners. In overarching terms, any amendments make sure to apply the polluter pays principle across all forms of pollution, including agriculture, manufacturers and commercial users of PFAS. We see this as the surest way to create a consistent approach and to drive enhanced outcomes for the environment in Wales.

In the interest of keeping this consultation response manageable, we've focused on our four top-level areas to aim for with the amendments – (i) statutory consultee status, (ii) sewage discharges to watercourses, (iii) discharge monitoring and (iv) actions against third-parties – which we discuss further below.

We'd also welcome the opportunity to engage with Welsh Government at a working level to share (i) a more extensive list of areas to target, (ii) the logic for tackling these areas and (iii) potential legislative amendments to bring about the desired changes.

Statutory consultee status

As it stands, water companies have no statutory consultation rights on planning applications for new developments. This inhibits a water company's visibility of new developments and its ability to contribute to the planning decision-making process. This then limits the water company's ability to prevent unauthorised build-overs of critical assets, such as large trunk mains, and their ability to restrict access during emergency situations. Granting statutory consultee status, alongside powers to require the removal of unauthorised build-overs, would materially strengthen asset protection and help safeguard service resilience for the wider community.

Sewage discharges to watercourses

Section 94 of the Water Industry Act provides a general obligation on water companies to provide sewage networks, treatment and disposal. UWWTR provides that the systems must provide for sufficient treatment in normal climatic conditions, and this includes the BTKNEEC test. NRW and Ofwat

have had different interpretations of what this means, in terms of storm overflow operations – with Ofwat now articulating that this should normally mean no more than 20 spills a year.

We therefore consider there is a clear need to legislate to (i) give clarity on Wales’s position on storm overflow use and (ii) consolidate relevant legislation.

Discharge monitoring

Highways discharges to waterways play a significant role in determining waterbody health. But, as it stands, such discharges are not subject to the close scrutiny given to storm overflows. This then results in a distorted picture of discharges to waterways. **We therefore consider that highway discharges to waterways are monitored to the same standard and level of scrutiny as storm overflows.**

Actions against third-parties

Water companies are being encouraged to take more action against third parties and are also increasingly likely to be held accountable for pollutions caused by third-party actions. At the same time, NRW taking decisions on attribution and categorisation of pollutions, and looking to do so faster, cuts across the water company investigating and potentially prosecuting and/or seeking civil recovery against the third party that may have caused the pollution. We therefore consider that:

- offences should be made triable either way – in other words triable either in the Magistrates’ Court or in the Crown Court, depending on the circumstances of the case;
- water companies in Wales should be given powers such as automatic penalties and variable monetary penalties in a similar way to NRW; and
- NRW should pause regulatory decisions where water companies are contemplating prosecution and/or cost recovery against third-parties.

We would also propose giving water companies increased powers of entry and access to land when we reasonably suspect an environmental incident is occurring. These powers should also extend to entry and access to land to carry out necessary works, including under the Reservoirs Act.

9) Should public health outcomes and nature-based solutions be incorporated into future water legislation?

A strong view is that public health issues such as PFAS and Lead-Free Wales should be incorporated into future water legislation, and nature-based solutions with caution. We see a significant risk of legislation locking-in approaches, targets and definitions that are unlikely to stand the test of time – a risk that is particularly acute where our understanding of risk continues to evolve and unproven solutions are being explored.

For example, there is uncertainty about the water resources benefits of nature-based solutions. Whilst they will be beneficial to the environment and could lead to water quality improvements, depending on the solution being implemented, a lot more research is needed to understand which types of solutions could bring a water resource benefit and how big a benefit that could be. However, nature-based solutions delivering an evidence-based outcome such as wetlands and reedbeds to reduce nutrient levels in water, could be implemented to provide a cost-effective benefit without relying on hard engineering. In some circumstances, nature-based solutions will deliver the best solution especially as they can be implemented over a larger scale than hard engineering, but robust assessment should be conducted to determine their suitability, including longevity.

Overall, rather than seeking to incorporate such areas into legislation, we consider that these would be better delegated to the relevant regulator so that they can keep these up-to-date as understanding develops, and risks and solutions evolve.

10) What innovations or enforcement approaches could strengthen compliance for wastewater and drainage?

The strength of the compliance regime continues to evolve, most recently with the advent of the Water (Special Measures) Act. We therefore think it important to recognise the progress made so far and implications this has for further future changes.

We see digitisation and automation as opportunities to strengthen compliance by accelerating the speed of reporting and doing so in real time, and increasing transparency. At the same time, such reporting would need a pragmatic assurance process that helps build confidence in its outputs and does so with minimal impact on the faster pace it brings.

More broadly, any enforcement regime will need to make sure it retains the polluter pays principle at its heart. The need to sustain this principle and prevent its erosion has recently been brought home by the changes to pollutions reporting. These changes now mean that water companies are required to report third-party pollutions as part of their own performance – a change that risks creating a prevailing expectation that water companies are the ones that pay for pollution by third-parties.

Consistent with this thinking, there are opportunities to improve clarity around discharges. Firstly, discharges to the environment from other parties, such as those operated by the Trunk Road Agents in Wales, should be subject to monitoring requirements equivalent to those applied to storm overflows. This would allow their contribution to waterbody health to be properly assessed and ensure a more complete and balanced evidence base for environmental regulation. Secondly, there is a need to establish a clear and coherent legislative framework that enables water companies to lawfully discharge to any watercourse, in compliance with permitting conditions. This would provide greater certainty following the *Manchester Ship Canal* judgment and reduce ambiguity around companies' legal rights and obligations.

Strengthening Welsh water regulation and accountability

11) Subject to enabling powers being provided to Welsh Government, do you agree with the proposal to establish a new, stand-alone economic regulator for water in Wales?

We support any regime that delivers the best outcome for customers and the environment in Wales. We think that could occur through a stand-alone regulator, but what really matters for success is the decisions, how trade-offs are made and the clarity of government guidance.

In setting up a separate, independent regulator for Wales, building the required capacity and capabilities will be critical to its success. The needs of Wales continue to evolve differently from England, making it welcome to have an economic regulator focused entirely on Wales, Welsh legislation and with an understanding of Welsh Government funds, grants and strategy. And, as proposed, we agree that implementation with the arm's-length principle in relation to the Welsh Government is important to ensure consistent and effective regulation that maintains the confidence of investors.

In terms of building the regulatory function, it's important that the scale of this task is not underestimated. Most notably, it will be the first time that such regulatory functions will be located in Wales, meaning that time may be needed to put the local talent pipeline in place.

In this context, it's important to consider the extent the regulator in Wales should look to do things by itself, versus working with its counterpart in England harness joint-working opportunities on a long-term basis. For both regulators, joint-working could boost understanding, expand the range of data and information available, and strengthen the insight used to take regulatory decisions. It could also serve as the platform for tackling cross-border challenges.

Overall, targeted joint-working should then help strengthen the confidence of stakeholders and customers in the new regime. From a Wales perspective, we could see second-order benefit emerge from the cost and resource sharing that this would involve that helps keep the regulatory regime's costs comparable with England on a per-customer basis.

12) What governance principles should underpin the design of a Welsh economic regulator, and how should its supervisory approach balance oversight with flexibility for innovation?

A successful Welsh economic regulator will be underpinned by a set of governance principles that allow them to stay focused, retain their independence and deliver effectively. At the heart, we would expect clearly defined roles, so that the regulator knows exactly what it is responsible for and so that government and other statutory bodies understand where their duties start and finish.

We consider that independence should be non-negotiable. Critically, allowing regulators to make decisions without political involvement will give companies and investors the confidence that the regulatory regime is stable and doesn't present a risk that it will shift with the political winds. In turn, this would allow for a system that is deliberately stable but flexible, thereby making sure regulation can adapt as markets evolve.

In term of the new regime's supervisory functions, we believe it is crucial that these are responsive to both risk and company size, if it is to be of overall net benefit to consumers, investors and the environment. A risk-based approach offers the dual benefit of a lighter-touch where risks are low or being managed well and allowing for closer supervision in areas posing greater or increasing levels of risk.

At the same time, we think the function should also adopt a principle that companies have the freedom to innovate as they seek to improve performance and find improved ways to manage risk. To that end, such innovations should not require the approval of the supervisory function. Ultimately, it is the companies that take the risk on these innovations, which naturally leaves them best placed to decide on whether or not to take an innovation forward.

13) If enabling powers were not conferred by the UK Government, what changes to the plans proposed by UK Government would be required?

Regional planning would need to include a Wales region, or cross-border catchments would need to be part of the relevant English region. The Welsh Government would need to be involved in the development of the new joint system to ensure that Welsh priorities are met.

Delivering better outcomes – reforming regulation in Wales

14) Which changes to performance commitments and outcome delivery incentives should be prioritised?

A key overarching objective for change should be ending the asymmetry that both regimes have created for companies, as well as the double-jeopardy they have created with other parts of the regulatory framework.

In practice, we would not expect these areas to be addressed through new legislation or changes to existing legislation. Rather, we would expect the reforms to set a principle that asymmetric risk and double-jeopardy risks posed by the performance regime are to be eliminated wherever possible, with a further principle that the regime's financial risk is to be reduced.

As the IWC identified, tackling such risks will likely involve (i) reducing the number of PCs, (ii) setting performance targets that are more company-specific and a more equal bet, and (iii) incentive rates that are aligned to a lower level of overall risk and support an equal balance between penalties and rewards. In terms of taking this forward, delivering this risk reduction and designing the components needed to bring it about should be the new regulator's responsibility.

In a similar vein, we would recommend that the regulator be tasked with including Price Control Deliverables (PCDs) as these also play a key role in determining the level of risk that water companies (and their investors) face and the relative attractiveness of our sector compared with other utilities. For example, in its recent price control determinations, Ofgem evolved the PCD regime for energy network companies. This updated regime better reflects the challenges companies face in delivering capital projects, is notably more pragmatic and offers a lower level of risk than either the previous energy regime or the regime in water.

15) How can digital enforcement and monitoring be implemented affordably for Welsh customers, and what steps could strengthen operator self-monitoring while maintaining confidence in compliance?

This is an area where we see opportunities to increase confidence in compliance in a way that is affordable for customers in Wales. In our view, harnessing these opportunities is best left to the relevant regulators to manage and deliver, rather than use legislation as the delivery vehicle. In practice, the opportunities, relative costs and the expectations of customer and stakeholders in Wales will all vary over time – so, it is essential that the monitoring and compliance regime has the flexibility to keep up. Hence the logic for making this the responsibility of the relevant regulators.

16) How should civil sanctions and enforcement powers be applied proportionately?

As we set out in our response to consultation question 8, currently, water companies are being encouraged to take more action against third parties and are also increasingly likely to be held accountable for pollutions caused by third-party actions. At the same time, NRW is taking decisions on attribution and categorisation of pollutions, and looking to do so faster, cuts across the water company investigating and potentially prosecuting and/or seeking civil recovery against the third party that may have caused the pollution. We therefore consider that:

- offences should be made triable either way – in other words triable either in the Magistrates' Court or in the Crown Court, depending on the circumstances of the case;
- water companies in Wales should be given powers such as automatic penalties and variable monetary penalties in a similar way to NRW; and
- NRW should pause regulatory decisions where water companies are contemplating prosecution and/or cost recovery against third-parties.

17) Do you agree that tighter regulatory control on the application of sewage and septic tank sludge to land in Wales is required?

We strongly believe that any decision to tighten regulatory controls should start with following the science. This would then provide the most robust platform for deciding on opportunities to modernise the regulations and for boosting our stakeholders' confidence in the controls.

We also agree that cross-border movement of sludge requires careful consideration. Although we do not currently directly send treated sludge for spreading to agricultural land in Wales or England, we believe it is important to have consistency of standards between England and Wales for those biosolids operators who supply farmers either side of the border.

Currently, untreated sewage or septic tank sludge can legally be applied to land in Wales. While we never do this, the risk remains, such as with private septic tanks. From an environmental risk perspective, it is important that (i) this sludge is treated before applying it to agricultural land, and (ii) all operators applying sludge to land operate to the same standards. In our view, any regulatory changes that are brought in will need to set out clear requirements for nutrient management, including who is responsible for compliance. The changes would also need to be proportionate and based on assessment of risk that factors in impact to soil, water and air. We would also wish to see inclusion of best practice guidance, such as the Safe Sludge Matrix, within the regulatory framework to improve clarity for biosolids operators and farmers.

Accordingly, we consider that **EPR control with earned recognition adaptation** (option 3) is the most suitable of the five options listed in the consultation. We would also welcome the opportunity to work with regulators to implement change that effectively balances the environment and food production.

In our view, successful implementation will hinge on strong engagement with both biosolids operators and the agricultural industry. This could include bringing this to life with a range of modelled scenarios to help (i) understand the holistic impacts of required changes to regulatory control; (ii) develop a framework for the forward management of chemical identification and monitoring to manage emerging risks; and (iii) develop a model for agile and environmentally sound deployment that supports agricultural industry needs.

Tactically, we believe the following actions would support this engagement and secure long-term sludge to land management:

- require all biosolids operators to be subject to an assurance scheme, such as BAS, to assure quality of biosolids and enabling more flexible and efficient deployment of product;
- clear consultation process for regulatory and process changes, with comprehensive impact assessments including reference to funding and a transition period for the water industry; and
- risk assessments for nitrogen and phosphorus in relation to application periods and associated impacts on water, soil and air.

18) Should crop fed anaerobic digestion be subject to regulation and its output controlled? Is action needed to strengthen existing regulation of anaerobic digestion fed from other feed sources or to improve compliance and if so, how might this best be delivered?

As this is outside of our areas of operation, this is not a question we can respond on.

19) Do you think having a waste exemption for anaerobic digestion is correct based on the risks of the process?

As this is outside of our areas of operation, this is not a question we can respond on.

20) Are there better ways to valorise digestate for beneficial application to land, what are these and what is the evidence that shows this could lower the overall environmental risk of current digestate application to land.

As this is outside of our areas of operation, this is not a question we can respond on.

Ensuring strong, responsible water company governance in Wales

21) What measures would strengthen governance standards and senior accountability in Welsh water companies?

Over the last two years, there have been a lot of changes on governance and accountability. We consider that it is essential for these to be properly embedded before deciding on the need for and shape of further changes. To do otherwise will undermine the sector's ability to attract the best talent and deliver improvements.

The Water (Special Measures) Act 2025 has strengthened the statutory regime and therefore significantly increased both governance expectations and the accountability for senior leaders. The changes have brought restrictions on executive bonuses when a water company fails to meet environmental, customer, financial resilience or criminal compliance standards. Mandatory "fitness and propriety" tests for directors and chief executives are now in place, giving the regulator power to block or remove individuals who do not meet defined standards. And, there is now criminal liability and enhanced penalties for persistent law-breaking, such as pollution offences. More broadly, the act has brought in requirements for customer representation in corporate decision-making, potentially including consumer representation on boards or advisory panels.

We've also seen a consumer engagement rule take effect on 1 April 2026. The new rule is designed to better embed consumer views into company decision-making. It also intends to hold water companies to account and to address the perception among some stakeholders that water companies prioritise profits over other objectives. Ofwat can take enforcement action for non-compliance with the rule.

22) How can financial resilience requirements (e.g., minimum capital levels, environmental bonds) support sustainability, and what principles should guide decisions on alternative ownership models?

In our view, the legislation in Wales should set out a principle that water companies should be financially resilient. The legislation should also assign responsibility to the independent regulator in Wales to set out (i) what resilience looks like in practice, (ii) how best to enable resilience and (iii) how to ensure compliance. The regulator should also have the flexibility to vary and evolve its approach as needed when there is sufficient cause to do so.

Similarly, the regulator should have the responsibility for (i) setting the principles that would guide decisions on alternative models and (ii) determining whether or not a proposed change in a company's ownership or ownership model should go ahead. We would expect such principles and determinations to be founded on whether the changes are in the long-term interests of customers.

Building resilient water infrastructure and healthy water assets for Wales

23) What outcome-based resilience standards would be most appropriate for Wales, and how can asset health mapping and forward-looking metrics be strengthened without disproportionate costs?

In overall terms, we think these are areas where the new independent regulator will be best placed to develop a suitable framework, rather than seek to create the answers as part of the reforms. Indeed, addressing them as part of the reforms could run the risk that standards, mapping and metrics get locked-in, making them difficult to adapt and evolved in future.

In taking on these areas, the regulator would ideally have a clear philosophy to follow that emphasises long-term asset health, sustainable capital maintenance funding, and the delivery of customer and environmental outcomes. In terms of principles that could further underpin such a philosophy, these might include:

- **making sure financial allowances support long-term system resilience**, not just short-term service levels;
- **anchoring regulation in outcome delivery**, with resilience understood as the ability to sustain these outcomes over time.
- **planning and measuring resilience using future-facing, risk-based standards** – moving away from backward-looking performance metrics that are more symptomatic of previous investment and regulatory decisions

24) What steps should improve supply chain and workforce capacity for future infrastructure delivery?

At its heart, improving supply chain and workforce capacity hinges on stability in the pipeline of work and future expectations. As a first step, that entails ending the feast-and-famine pattern of investment that has been seen across different price controls. It also involves recognising that stability is more sophisticated than simply making sure that similar volumes of activity – across maintenance, renewals and enhancements – are repeated from one price control to the next. Rather, it requires clearly set out expectations on how activity volumes and activity areas will change beyond the current price control.

In this context, 5/10/25-year planning will be essential. This will give companies and the supply chain the visibility needed to take long-term decisions on workforce planning, on delivery capacity and on the areas that will need the most focus.

We also see a significant opportunity for Wales to strengthen its supply chain and workforce capacity by increasing apprenticeship flexibility, modernising technical frameworks, enhancing employer involvement, and aligning with UK-wide standards where beneficial. These changes would help Wales build a highly skilled, future-ready workforce capable of delivering the major infrastructure projects essential to Wales's economic growth, environmental goals, and community resilience.

The key steps we would recommend taking here are to:

- increase flexibility for Welsh learners to access the full range of UK skills provision, (such as relevant apprenticeship standards available in England); and
- strengthen employer input into funded apprenticeship provision, thereby creating a stronger alignment between training and employment opportunities.

Making change happen – transition and implementation for Wales

25) What should be the key priorities in the Welsh Government's transition plan for water sector reform to provide clarity and stability?

The key priorities for making sure the transition plan provides clarity and stability is to keep the focus on outcomes, to place a collaborative and consultative approach at its heart and ensure transparency. These priorities will then make sure the transition journey (i) has the flexibility to evolve as needed, (ii) gives wider stakeholders and consumers visibility of what will happen and when, and (iii) retains the confidence of investors throughout.

At a more granular level, it will be essential to have clearly defined roles and responsibilities, particularly with the creation of the system planner function. To achieve this, consultation on the system planner as suggested in the paper should be a priority.

As Wales will have to undertake two transitions for economic regulation, from Ofwat to the new integrated regulator primarily for England, to the new economic regulator in Wales, we expect Welsh Government will need to maintain close oversight to ensure that the needs of Wales are met

26) How can governance and advisory mechanisms ensure effective stakeholder engagement during the transition period, and would independent oversight add value? If so, what form should it take?

We would strongly support governance and advisory mechanisms setting out clear expectations and duties for stakeholders to collaborate constructively during the transition period. In fact, our experience is that stakeholders have good foundations in this regard having worked collaboratively at PR24 and having begun to do so as we embark on the programme of reforms for the future of water governance in Wales.

In terms of independent oversight, we see this could add value in terms of helping sustain pace, helping make sure key transition milestones are hit and helping deliver a successful transition. However, we are less clear as to whether this would be net beneficial over-and-above the extra layers and costs this might add to the process.

Mandatory Welsh language impact questions

27) What, in your opinion, would be the likely effects of the proposals in this Green Paper on the Welsh language? We are particularly interested in any likely effects on opportunities to use the Welsh language and on not treating the Welsh language less favourably than English.

We consider the Green Paper does not raise concerns from a Welsh language perspective.

28) In your opinion, could the proposals in this Green Paper be formulated or changed so as to have positive effects or mitigate any negative effects on using the Welsh language and on not treating the Welsh language less favourably than English?

We consider the Green Paper does not raise concerns from a Welsh language perspective.

Other

29) We have asked a number of specific questions. If you have any related issues which we have not specifically addressed, please use this space to report them:

Water efficiency measures referenced in section 5.4 are not directly reflected in the consultation questions, and we consider it important that they are fully considered within the reform process.

Further clarity is also required on the proposal to move abstraction into the Environmental Permitting Regime. Our abstractions are already licensed, so we assume this change relates to smaller, currently exempt abstractions. A formal registration and permitting process for all private water supplies – including the estimated 41,764 unregistered supplies – would strengthen national planning and improve visibility of private supply locations, supporting better drought preparedness.

Compulsory metering currently applies only to areas designated as water stressed, and our supply area does not fall within this category. Our long-term plan is to replace all basic and AMR meters with AMI (smart) meters by 2045 and install AMI for all new optants, leading to an expected 70% penetration. Rising meter opt-ins during the cost-of-living crisis may increase this forecast. Any move to compulsory smart metering will need a robust cost-benefit assessment – noting that AMR may still be more suitable in some areas and that telecoms constraints could limit AMI deployment.

Tariff reform should proceed only after sufficient trials and be supported by a strong communications strategy to avoid confusion and ensure vulnerable customers do not reduce essential water use due to cost concerns.

Finally, water reuse should be encouraged across sectors, for example through incentives for smart water butts and other measures that reduce reliance on abstracted water. Where appropriate, grey-water use should be expanded through building regulations and could form part of future legislative updates.