

Environment and Sustainability Committee

Meeting Venue:
Committee Room 3 – Senedd

Meeting date:
17 April 2013

Meeting time:
09:30

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Committee Clerk
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Agenda

- 1. Introductions, apologies and substitutions**
- 2. Water policy in Wales – Video evidence collected by the outreach team (09.30 – 10.00)**
- 3. Water policy in Wales – Evidence from Ofwat (10.00 – 11.00)** (Pages 1 – 21)
E&S(4)-11-13 paper 1

Keith Mason, Senior Director of Finance and Networks
Steve Roberts-Mee, Corporate Affairs
- 4. Papers to note** (Pages 22 – 27)
Minutes of the meetings held on 7, 13 and 21 March
- 5. Letter from the Minister for Natural Resources and Food – Actions arising from 21 February meeting** (Pages 28 – 39)
E&S(4)-11-13 paper 2
- 6. Notes of a meeting with BAE Systems (Water policy in Wales inquiry)** (Pages 40 – 42)
- 7. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: Item 8**

8. Forward work programme



Water Policy in Wales: Evidence to the Environment and Sustainable Development Committee

Introduction

Ofwat is the economic regulator of the water and sewerage sectors in England and Wales. Our primary duties are to:

- protect the interests of consumers, wherever appropriate by promoting effective competition; and
- enable efficient water and sewerage companies to carry out and finance their functions.

We also have a range of secondary duties. These include:

- contributing to sustainable development;
- promoting economy and efficiency;
- ensuring there is no undue discrimination against particular customers; and
- having regard to the principles of best regulatory practice.

We are accountable to the National Assembly for Wales when carrying out water policy set by the Welsh Government.

Since privatisation in 1989, our regulatory model has helped the water and sewerage sectors to deliver major improvements to customers and the environment while keeping customers' annual bills £120 lower than they would otherwise have been. This has included £8 billion of investment in Wales, which has delivered major service improvements to Welsh water customers and a cleaner, better water environment.

The sector now faces a different set of challenges from the chronic under-investment that was a problem at privatisation. The impacts of climate and demographic change, on water resources in particular, as well as changing expectations from customers, mean that we need a different approach.

While our historic, consistent model of economic regulation over the past two decades has been described as ‘the gold standard’ for attracting finance and dealing with under-investment after privatisation, there is some evidence that it has not always encouraged the most sustainable approaches from companies and the efficiency benefits we have gained for customers each price review have slowly decreased¹.

To meet the challenges of the future we are adjusting our regulatory model to ensure it supports the most sustainable outcomes and continues to drive efficiency improvements in the companies to keep bills affordable for customers. This reformed framework will include the use of new incentives.

We support the UK Government’s proposals to introduce choice for non-household customers and greater upstream trading of water. There is a wealth of both theoretical and empirical evidence suggesting that market-based approaches are more effective than regulation at driving efficiency². In particular, market mechanisms work well in allocating scarce resources as efficiently as possible – which is a key challenge that we are facing in water resources – and encouraging innovation.

We recognise entirely that decisions about whether or not to introduce market mechanisms and about how the legislative framework should be established and operate are rightly for Welsh Ministers and Government. We also recognise that these are significant decisions that are not without risk. Therefore, we welcome the opportunity to respond to the Committee to ensure that these decisions can be supported by the strongest evidence base.

We look forward to the Welsh Government’s forthcoming Water Strategy, building on the Ministerial Statement on Water of December 2011.

¹ In Future price limits – a consultation of the framework. Appendix 1: draft impact assessment, http://www.ofwat.gov.uk/consultations/pap_con201111fpl_app01.pdf (p.27), we showed that the relative efficiency gains that our regulatory model has gained for customers has historically been falling and during the last five-year asset management period (AMP 4) our efficiency challenge delivered a 1.6% efficiency gain on water operating costs and a 1.5% gain on sewerage operating costs compared with a 3.1% gain across both areas of operating costs in the previous AMP. Similarly, capital expenditure efficiency was 2.4% for water in AMP 4 and 2.7% for sewerage; again, these figures compare to 4.2% for water and 6.2% for sewerage respectively in AMP 3. This drop in efficiency gain is also part of the reason for a change in approach.

² See for example, Office of Fair Trading, Productivity and competition: an OFT perspective on the productivity debate, 2007, http://www.offt.gov.uk/shared_offt/economic_research/oft887.pdf and Y Zhang, D, Parker and C Kirkpatrick, Assessing the effects of privatisation, competition and regulation on economic performance: the case of electricity sector reform. Department for Economics, SCAPE, Working Paper Series, 2005 Paper No. 2005/11, <http://ideas.repec.org/p/sca/scaewp/0511.html>

Assess the implications of the draft Water Bill for Wales, particularly with regard to competition in the non-household market

We welcomed the publication of the draft Water Bill in July 2012. We comment below on specific provisions in the draft Bill. However, a key feature of the overall draft Bill that we welcome is the package of changes that will bring about the introduction of choice for all non-household customers in England. Aside from the broad support for greater choice over their service provider among seven out of ten business customers³, these changes will help enable the water sector to respond to the challenges we have highlighted.

Reflecting experience in Scotland, the changes will encourage non-household customers to use water more sustainably and also drive efficiency, innovation and improvements in customer service, delivering economic growth. Taken together, these changes will help to support the sustainable outcomes.

Driving sustainable water use

We recognise the current policy position of the Welsh Government and its intention not to introduce further competition into the water and wastewater market at this time. However, we consider that if these changes were introduced in Wales they would deliver a range of positive benefits for Welsh customers. One of the key benefits of introducing choice over their retail supplier for non-household customers in Scotland has been reduced bills and water use through greater water efficiency.

The Scottish experience shows clearly that a stand-alone retail operator, competing for the business of non-household customers, is encouraged to offer more value-added services and water efficiency advice than they would have done under an integrated 'source to tap' water company model⁴.

³ Results based on two separate consumer research studies commissioned by CCWater and Ofwat between 2007 and 2010. Large business customer research was based on telephone surveys with 684 large businesses in England and Wales that MVA conducted in June 2007. This showed that 84% supported competition in principle. Small and medium business research was based on telephone surveys that Accent conducted in June 2010 with 1,515 businesses with fewer than 250 employees. This showed that 69% supported competition in principle. See www.ccwater.org.uk.

⁴ See Grant Thornton, Water Industry Commission for Scotland: Cost Benefit Assessment, May 2010, <http://www.watercommission.co.uk/UserFiles/Documents/Competition%20report%20-%20final.pdf>

A study into the Scottish market suggests that by 2020-21⁵ Scottish businesses will have saved £50–£55 million through saving water, compared with existing levels of water use. Furthermore, a recent public sector procurement exercise across Scotland resulted in a cost saving of up to £25 million. As part of the exercise the successful bidder also agreed to install free Automated Meter Reading technology in all of the public sector sites across Scotland – supporting significant water efficiency improvements. Retail competition is delivering a twin benefit of lower costs to Scottish businesses (which can help drive growth) and more sustainable use of a precious resource.

Beyond retail choice, the upstream reforms proposed in the draft Bill will sit alongside our own regulatory proposals to encourage companies to use scarce water supplies as efficiently as possible by trading more water and to build more interconnection between their networks. This will both ensure future resilience and avoid inefficient and unsustainable new supply investments wherever possible⁶.

The draft Water Bill will ensure that **all** water resources can be considered as part of a long-term approach to delivering resilience and ensuring the most efficient use of water in England. The proposals for upstream reform will ensure that where third parties hold water that can be used to ensure the future resilience of water supplies, and can provide those supplies more efficiently than the incumbent water company, they have the opportunity to do so. They will also give water companies a wider choice of how and where to take water from the environment to meet their customers' demands as part of their water resources management plans. With a greater choice of sources of water, companies will be able to choose the cheapest sources (keeping bills down) and those that are the most environmentally sustainable.

⁵ Ibid

⁶ Since 1997, levels of water trading between companies in England and Wales have remained static at 4–5% of volumes. This is despite the growing challenges around water scarcity in some parts of England and Wales and significant new investments within company networks. We consider that in order to ensure sustainable water supplies in the future companies must be encouraged to look beyond their own regions and build greater interconnection between their own networks and those of neighbouring companies.

The most comprehensive analysis of the impacts of these reforms available to date in England is the upstream impact assessment completed by the UK Government⁷, which suggests that some £2 billion of benefits would be gained from their introduction. Using the same methodology and assumptions as that impact assessment, we calculate that if these reforms were mirrored in Wales they could deliver a net benefit of £87 million over 30 years.

Efficiency, growth and reducing regulatory burdens

The draft Bill offers benefits beyond the £87 million of efficiencies from upstream reforms and the promotion of more sustainable water use. Applying the draft Water Bill in Wales, so that retail choice was available to non-household customers, would support further efficiency and growth in Wales, through:

- improved efficiency and lower bills;
- innovation in service delivery; and
- more tailored and improved services to customers.

Allowing business customers to choose their supplier will provide those customers with a much stronger say in the type and price of services they receive. This will enable them to control their own input costs and therefore be more competitive – helping drive growth in the economy by providing savings that can be reinvested in Welsh businesses. A Policy Exchange report in 2011 reported that a customer with 1,400 single sites could save £80,000–£200,000 by receiving one integrated water and sewerage bill from a single supplier instead of the 4,000 separate bills it receives at present⁸.

⁷ See <http://archive.defra.gov.uk/environment/quality/water/documents/wwp-ia-upstream-1347.pdf>

While there are always difficulties associated with forecasting future impacts and opportunities to improve the analysis, this analysis was independently quality assured by the Regulatory Policy Committee (RPC), which gave the impact assessment a 'green' rating, the highest rating they can give and one which is generally only achieved by c.1/3 of the IAs that the RPC review.

⁸ Policy Exchange, 2011, Still Hobson's Choice, The case for water retail services market reform in England and Wales, p.2-3,

<http://www.policyexchange.org.uk/images/publications/water%20retail%20services%20competition%20in%20england%20and%20wales%20-%20jul%2011.pdf>

There have been various studies into the costs and benefits of introducing non-household retail choice in England and Wales or England only. These include work completed by the Cave review⁹, Oxera¹⁰, Policy Exchange¹¹, the Water Industry Commission for Scotland¹², Ofwat¹³ and Deloitte¹⁴, and the UK Government's retail impact assessment¹⁵. These studies offer a range of figures for the likely total costs and benefits of introducing non-household retail choice, with some providing quantitative results and others looking at specific aspects of the cost/benefit case. As is the case with the upstream reforms, we are not aware of any Wales-specific studies.

⁹ Cave, M, Independent Review: of competition and innovation in Water Markets: Interim Report, November 2008, <http://archive.defra.gov.uk/environment/quality/water/industry/cavereview/documents/cavereview-report.pdf> and Cave, M, Independent Review: of competition and innovation in Water Markets: Final Report, April 2009, <http://archive.defra.gov.uk/environment/quality/water/industry/cavereview/documents/cavereview-finalreport.pdf>

¹⁰ Oxera, Competition in the Water Sector: a review of the cost-benefit analysis knowledge base, 2011, <http://www.oxera.com/main.aspx?id=9560> see also Cave, M, Comment on Oxera report on 'Competition in the water sector: a review of the cost-benefit analysis knowledge base', April 2011.

¹¹ Policy Exchange, 2011, Still Hobson's Choice, The case for water retail services market reform in England and Wales, <http://www.policyexchange.org.uk/images/publications/water%20retail%20services%20competition%20in%20england%20and%20wales%20-%20jul%2011.pdf>

¹² See <http://www.watercommission.co.uk/Blogs/post/Costs-and-savings-of-retail-competition.aspx> and also Water Industry Commission for Scotland, Retail Competition in Scotland: An audit trail of the costs incurred and the savings achieved, 2011, [http://www.watercommission.co.uk/UserFiles/Documents/WICSAuditTrail\(B\)%20\(2\).pdf](http://www.watercommission.co.uk/UserFiles/Documents/WICSAuditTrail(B)%20(2).pdf)

¹³ Ofwat, Review of the evidence base for retail competition and separation, 2011

¹⁴ Deloitte, Lessons for the water and sewerage industry from retail competition in the utility sector, 2011, http://www.deloitte.com/view/en_GB/uk/industries/eiu/water/24dca3dd6f90e210VgnVCM2000001b56f00aRCRD.htm

¹⁵ The UK Government's impact assessment ('Introducing retail competition in the water sector', HM Government, 2011, <http://archive.defra.gov.uk/environment/quality/water/documents/www-ia-retail-1346.pdf>

Table 1 Studies into non-household retail choice and results

Study	Results	Notes
Cave review retail impact assessment	£617 million net benefit (NPV over 30 years)	Results cover England and Wales and are based on proposals to legally separate retailing activities. Evidence largely based on a conservative application of the Scottish experience and with limited data on the true retail cost base.
Deloitte working on behalf of Water UK	£1,351 million net benefit (NPV over 30 years)	Results cover England and Wales and are based on direct application of Cave review proposals (including legal separation of retail). Despite the overall result, the report provides some sceptical narrative around the achievement of some of the benefits cited, particularly ‘spillover’ benefits to household retail and the ‘wholesale’ business.
Water Industry Commission for Scotland	£750 million–£2 billion net benefit (NPV over 30 years)	Results cover England and Wales and are essentially based on direct application of the Scottish experience to England and Wales (including separation of retail services).
UK Government retail competition Impact Assessment	£190 million net benefit (NPV over 30 years)	Results cover England only and are based on no separation of retail of any kind. Based on a range of evidence and sources.
Policy Exchange	N/A	Results based on a series of case studies with business customers and desk review of other studies.
Oxera	N/A	Provides some critical discussion of the Cave review analysis and underlying assumptions.

Collectively, these studies suggest that across England and Wales the net result of introducing retail choice for non-households could deliver somewhere between £190 million and £2 billion of net benefits. They also highlight a range of key risks such as the need to maintain investor confidence – which the UK Government has cited as a key reason for not taking forward the Cave review’s recommendation to require the separation of water companies’ retail operations.

Using the same approach and assumptions as the UK Government's retail impact assessment, which is among the most conservative pieces of analysis and considers all of the studies listed above, we calculate that the potential benefit to Wales of extending choice of supplier to business customers is in the order of £18 million over 30 years¹⁶.

Where choice is effective at delivering efficiency for customers, we will also be able to regulate the provision of retail water services to businesses in a more light-touch way than we do currently and could potentially de-regulate these activities completely at some point in the future. This will reduce the burden of regulation on the existing water companies' retail businesses, allowing them greater freedom to respond to their customers.

Overall implications for Wales

If the Welsh Government were to implement the provisions of the draft Bill that give non-household customers a choice of supplier, we consider that this would lead to benefits to Welsh business customers from the efficiency and service improvements described above, more sustainable water use and reduced bills.

We recognise that this is a complex set of decisions that carry some risks and that the Welsh Government may therefore choose not to apply these provisions in Wales. In this case, we will continue to regulate the provision of retail services to business customers differently in Wales to ensure that those customers as far as possible gain any benefits from changes in England. We will not be able to reduce the burden of regulation on Welsh companies because in the absence of choice these customers will continue to need the protection of the regulatory framework to drive efficiency in Welsh companies.

For example, to ensure that Welsh companies continue to improve in a way that is comparable to the English companies it is likely that we would need to collect more information from Dŵr Cymru and Dee Valley to ensure we could compare them with the best performing companies in the competitive market in England. This would be an added cost for the Welsh companies and their customers.

We stand ready to work with the Welsh Government on any research on the potential development of markets in the Welsh water sector.

¹⁶ This impact assessment was also reviewed by the RPC and received an 'amber' rating (the RPC reviews all impact assessments coming out of the UK Government and gives each of them a 'green', 'amber' or 'red' rating).

Assess the progress made by the Welsh Government in addressing water affordability

The Welsh Government's Strategic Policy Statement on Water confirmed that:

“Keeping water bills at affordable levels is a priority for the Assembly Government. We want customers to have a choice of charging options that will drive up efficiencies, reduce debt issues and deliver benefits for all customers while protecting vulnerable groups.”

We have supported the Welsh Government as it formulates its preferred policy in this area by providing the results of our research and investigations into some of the options for addressing water affordability in Wales.

This work was designed to inform, assess and provide potential options for consideration by policy makers, and it is for the Welsh Government to take decisions on the appropriate policies to adopt. It set out a three-part package for assisting customers, which would replace Welsh Water's 'Assist' tariff (for Dŵr Cymru) and WaterSure (for Dee Valley), and which would most effectively target support on those customers who need it most. This package comprised:

- a targeted metering campaign for single occupants on benefits and/or tax credits or a bill cap based on a realistic assessment of consumption for households unwilling or unable to be metered;
- free blocks of water for metered families on benefits or a discounted assessed bill for unmetered families on benefits; and
- a bill cap for customers with medical conditions on benefits requiring above average consumption of water.

These three strands are designed to be delivered as a package of support to customers on benefits and (or) tax credits. Together they could maximise signals for efficient use of water, deliver support in a manner that is fair and tackle water affordability risks.

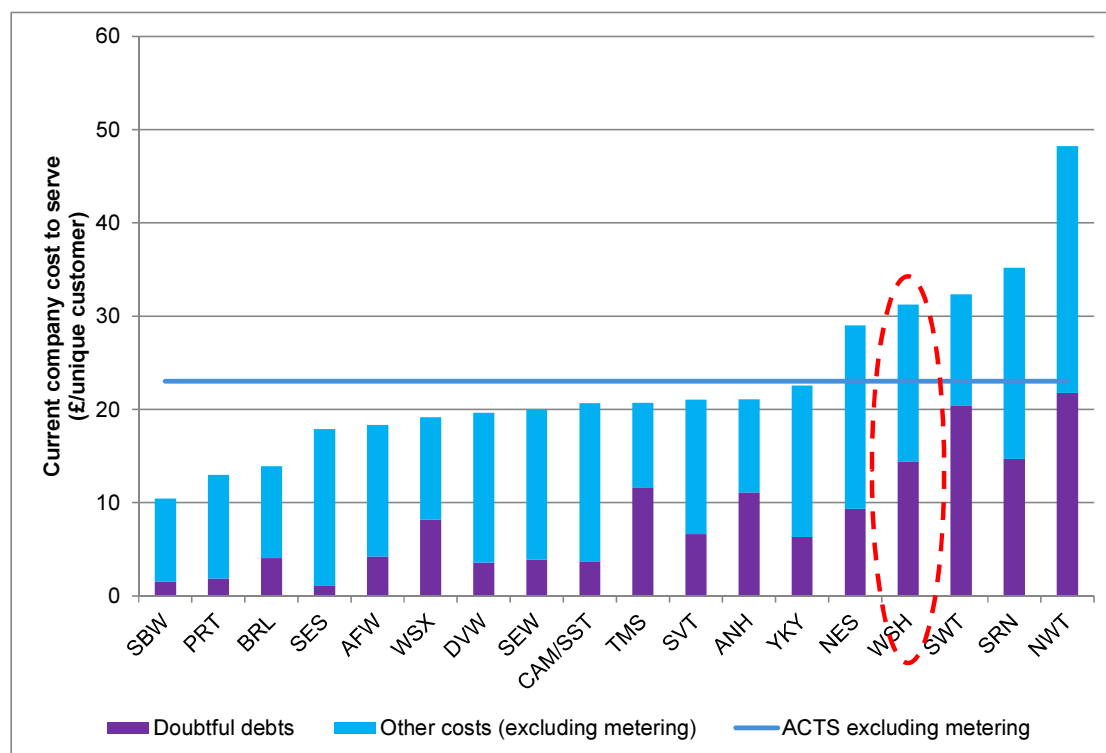
We are happy to share this research and package of measures with the Committee.

We look forward to the Welsh Government's publication of its social tariff guidance, which we expect will provide policy clarity in this area, and we will continue to work to implement that policy.

We are also keen to ensure that our regulatory framework helps address the significant affordability challenge we are facing. The level of bad debt that currently exists in the sector is a key affordability issue. This has been a growing problem in the sector and we estimate that bad debt now accounts for about £15 on each customer’s bill. Dŵr Cymru has particularly high bad debt costs compared with other companies in the sector¹⁷.

The graph below shows the differences between companies’ bad debt levels and overall retail ‘cost to serve’ each customer. Dŵr Cymru (labelled ‘WSH’) has both retail costs above the industry average and relatively high levels of bad debt. In our recent consultation on the methodology for the 2014 price review, we proposed to introduce separate price controls around wholesale and retail services. We consider that a separate retail price control will provide a stronger challenge on companies with high bad debt costs to address them and in doing so help address issues of affordability.

Figure 1 Retail and bad debt costs across the sector¹⁸



¹⁷ We note that there could be different reasons for this beyond inefficiency and the company has argued that, among other factors, its level of bad debt is influenced by the local customer base and the level of deprivation in its area.

¹⁸ Source: Ofwat analysis of companies’ most recent published household retail cost data, adjusted to reflect differing levels of meter penetration.

We responded to the Welsh Government's consultation on the Walker review. Our response can be viewed on our [website](#)¹⁹.

We also responded to the Welsh Government's consultation on social tariffs. This can also be viewed on our [website](#)²⁰.

Conclusion

If the Welsh Government were to implement the provisions of the draft Bill that give non-household customers a choice of supplier, this would encourage more sustainable water use and economic growth. Benefits from introducing retail competition could amount to £18 million in Wales over 30 years. If these provisions were not to be taken forward, in order to protect customers, we will have to regulate water companies operating wholly or mainly in Wales differently to how we will regulate in England and this could impose additional burden and costs on the Welsh companies.

If the Welsh Government were to take forward the upstream reforms in Wales, this would drive the more sustainable allocation of scarce resources, and further innovation. Benefits from the upstream reforms could amount to £87 million over 30 years.

Whether or not to take forward the provisions in the draft Water Bill is a matter for the Welsh Government. We are committed to continuing to protect Welsh customers, and ensuring that the water companies in Wales improve their services for them.

We have worked with the Welsh Government to develop a package to support their work in addressing water affordability, which includes targeted metering, free blocks of water and a bill cap for certain customer groups. We look forward to the publication of its social tariff guidance.

Ofwat
March 2013

¹⁹ See http://www.ofwat.gov.uk/regulating/charges/res_ofw20110704wggwalker.pdf

²⁰ See http://www.ofwat.gov.uk/future/customers/metering/affordability/res_ofw201102wagsocial.pdf

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Agenda Item 4

Environment and Sustainability Committee

Meeting Venue: **Committee Room 4 – Tŷ Hywel**

Meeting date: **Thursday, 7 March 2013**

Meeting time: **09:30 – 15:05**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_800000_07_03_2013&t=0&l=en

http://www.senedd.tv/archiveplayer.jsf?v=en_500000_07_03_2013&t=0&l=en

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Concise Minutes:

Assembly Members:

Dafydd Elis-Thomas (Chair)
Mick Antoniw
Keith Davies
Russell George
Vaughan Gething
Llyr Huws Gruffydd
William Powell
David Rees
Antoinette Sandbach

Witnesses:

Prof Kevin Anderson, The Tyndall Centre
Tony Bosworth, Friends of the Earth
Dr John Broderick, The Tyndall Centre
Gareth Clubb, Friends of the Earth Cymru
Dr Shaun Lavis, Clean Coal Limited
Naomi Ludhe-Thompson, Friends of the Earth
Professor Peter Matthews, Natural Resources Wales
Dr Emyr Roberts, Natural Resources Wales
Gerwyn Williams, UK Onshore Gas Limited

Committee Staff:

Alun Davidson (Clerk)
Catherine Hunt (Deputy Clerk)
Graham Winter (Researcher)

TRANSCRIPT

View the [meeting transcript](#).

1. Introductions, apologies and substitutions

1.1 Apologies were received from Julie James. There were no apologies.

2. Shale gas and gasification – Evidence from UK Onshore Gas Limited

2.1 Gerwyn Williams responded to questions from members of the Committee and agreed to provide additional information as requested.

3. Shale gas and gasification – Evidence from UCG Association and Clean Coal Limited

3.1 Shaun Lavis responded to questions from members of the Committee.

4. Natural Resources Wales

4.1 Peter Matthews and Emyr Roberts responded to questions from members of the Committee and agreed to provide additional information as requested.

5. Shale gas and gasification – Evidence from the Tyndall Centre

5.1 The Committee contravened Standing Order 17.45 as technological problems with translation prevented participation in Welsh during the video conference session.

5.2 The witnesses responded to questions from members of the Committee.

6. Shale gas and gasification – Evidence from Friends of the Earth

6.1 The witnesses responded to questions from members of the Committee and agreed to provide additional information as requested.

7. Papers to note

7.1 The Committee noted the minutes of the meeting held on 21 February.

Environment and Sustainability Committee

Meeting Venue: **Committee Room 3 – Senedd**

Meeting date: **Wednesday, 13 March 2013**

Meeting time: **09:30 – 12:06**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_400000_13_03_2013&t=0&l=en

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Concise Minutes:

Assembly Members:

Dafydd Elis-Thomas (Chair)
Mick Antoniw
Keith Davies
Russell George
Vaughan Gething
Llyr Huws Gruffydd
William Powell
David Rees
Antoinette Sandbach

Witnesses:

Christianne Glossop, Chief Veterinary Officer
Adrian Green, Welsh Government
Huw Jones, Welsh Government
Professor Martin Cave

Committee Staff:

Alun Davidson (Clerk)
Catherine Hunt (Deputy Clerk)
Lisa Salkeld (Legal Advisor)
Graham Winter (Researcher)
Nia Seaton (Researcher)
Elfyn Henderson (Researcher)
Caitlin Pearson (Researcher)

TRANSCRIPT

View the [meeting transcript](#).

1. Introductions, apologies and substitutions

1.1 Julie James sent apologies.

2. Motion under Standing Order 17.42(vi) to exclude the public from the meeting for item 3

2.1 The Committee agreed to take item 3 in private.

3. Control of Dogs (Wales) Bill – Technical briefing from Welsh Government officials

3.1 The Committee received a briefing on the proposed Control of Dogs (Wales) Bill from the Chief Veterinary Office and Welsh Government Officials.

4. Water policy in Wales – scene setting

4.1 The Committee discussed competition in the water industry with Professor Martin Cave.

5. Papers to note

5.1 The Committee noted the minutes from its meeting held on 7 March 2013.

Environment and Sustainability Committee

Meeting Venue: **Committee Room 3 – Senedd**

Meeting date: **Thursday, 21 March 2013**

Meeting time: **09:30 – 12:25**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_400000_21_03_2013&t=0&l=en

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Concise Minutes:

Assembly Members:

**Mick Antoniw
Keith Davies
Russell George
Vaughan Gething
Llyr Huws Gruffydd
William Powell (Chair)
David Rees**

Witnesses:

**Nigel Annett, Managing Director, Dŵr Cymru
Mike Davis, Dŵr Cymru
Andrew Fairburn, Severn Trent Water
Diane McCrea, Consumer Council for Water
Tony Smith, Consumer Council for Water**

Committee Staff:

**Alun Davidson (Clerk)
Catherine Hunt (Clerk)
Mike Lewis (Deputy Clerk)**

TRANSCRIPT

View the [meeting transcript](#).

1. Motion under Standing Order 17.22 to elect temporary Chair

1.1 William Powell was elected as temporary Chair.

2. Introductions, apologies and substitutions

1.1 Apologies were received from Dafydd Elis-Thomas, Julie James and Antoinette Sandbach.

3. Water policy in Wales – Evidence from Dŵr Cymru

3.1 The witnesses responded to questions from members of the Committee and agreed to provide additional information as requested.

4. Water policy in Wales – Evidence from Severn Trent Water

4.1 Andrew Fairburn responded to questions from members of the Committee.

5. Water policy in Wales – Evidence from Consumer Council for Water

5.1 The witnesses responded to questions from members of the Committee.

6. Motion under Standing Order 17.42(vi) to exclude the public from the meeting for item 6

6.1 The Committee agreed the Motion.

7. Forward work programme

7.1 The Committee discussed the forward work programme.

Agenda Item 5

Alun Davies AC / AM
Y Gweinidog Adnoddau Naturiol a Bwyd
Minister for Natural Resources and Food



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref SF-JG-0399-13

Lord Dafydd Elis-Thomas AM
Chair
Environment and Sustainability
Committee

27 March 2013

Alun Davies

SCRUTINY SESSION OF 21 FEBRUARY 2013

I write in response to your letter of 4 March to the then Minister for Environment and Sustainable Development, which requested further information following his appearance before your Committee on 21 February.

As you know, earlier this month I was delighted to accept the post of Minister for Natural Resources and Food and I am pleased to attach, as an annex, responses to each of the questions raised in your letter.

I have written to you separately concerning your request for further information following my appearance before the Committee as then Deputy Minister for Agriculture, Food, Fisheries and European Programmes on the same day.

I look forward to working closely with your Committee.

Alun Davies

Alun Davies AC / AM
Y Gweinidog Adnoddau Naturiol a Bwyd
Minister for Natural Resources and Food

Natural Resources Wales (NRW)

We would appreciate a summary of the differences between the original Business Case figures and the updated business case costings that are to be agreed with the Natural Resources Wales executive on 1 April 2013. In doing so, can you please set out the following:

- Costs, benefits and net benefits;
- The impact of the pensions decision in terms of costs, benefits and net benefits; and
- The impact of the re-profiling of IT spend decision in terms of costs, benefits and net benefits.

Minister for Natural Resources and Food:

- The new information does not compromise the conclusions of the business case. Benefit after cost remains very positive, and the choice of options is unaffected. However, my officials and NRW staff are working to update the baseline that NRW will work to, taking account of the most up to date information. This work is unlikely to conclude before 1 April, largely because the staff concerned are focussed on ensuring successful delivery of NRW operations on vesting day. I understand that my predecessor has discussed this matter with you and I shall be happy to provide a finalised set of figures and supporting narrative to you and your Committee at the earliest opportunity after that date.

During the session, you told us that that NRW will need to exit support from the UK Environment Agency (EA) and Forestry Commission (FC) earlier than anticipated in the business case. We would appreciate more information on:

- The reasons for this change;
- Whether there is a link between this and the decision to re-profile IT investment;
- Details of any other impact this has on the business case figures; and
- An updated timeline for exiting support from the UK bodies.

Minister for Natural Resources and Food:

- Firstly, as a point of clarification, the earlier exit from IT support refers to the EA, rather than FC. Exit from FC systems will progress over a similar time period to that originally envisaged.
- The business case assumed that access to EA systems would be available for a period of between 3 and 5 years, depending upon the speed of business transformation in the NRW. However Defra's triennial review of service provision in England has identified the amalgamation of EA and Natural England as a possibility (and the review team has already held a meeting with members of the NRW programme team). In this situation continued widespread service provision to Wales would be a complicating factor for the EA.

- Under the circumstances, EA has indicated that it is only willing to provide transitional service support for two years via an ICT gateway to NRW systems. (It has also agreed to continue to provide IT support where it is providing long term services).
- Meeting this shorter timescale will require an accelerated development process as compared with the original assumption. We have therefore re-profiled ICT spend assumptions accordingly.

Action points

You agreed to provide us with:

The latest figures for the pension costs of the single environment body, and in particular the EA scheme's deficit;

Minister for Natural Resources and Food:

- Provision of the live pension scheme for NRW (Principal Civil Service Pension Scheme) is cost neutral for the organisation. There is currently a deficit within the closed section of the Environment Agency Pension Fund (EAPF). This deficit varies from day to day as a result of changing market conditions, and also varies according to the actuarial assumptions used.
- The latest figure shows that the pension fund can currently meet 84% of its liabilities. This deficit will require NRW to increase the level of employer contribution made to EAPF to 33% of payroll costs for ex-EA staff (from the 16.5% EA Wales currently pays). The cash equivalent figure is an additional £4.6m pa from 2014 to 2017. The contribution level after 2017 will be set by the detailed triennial valuation that will be carried out in 2016. As mentioned above, changing market conditions will inevitably lead to further changes to this figure, over the time period, which may be positive and negative.

When the breakeven point included in the business case for the single environment body is now expected to be reached;

Minister for Natural Resources and Food:

- A number of changes to both costs and benefits, both positive and negative, have arisen in the period between the business case completion and the delivery of NRW. As I mentioned above, NRW staff and programme team members are busy updating the business case assumptions including an updated NPV profile, which will provide the break even point. I will write to you after 1 April to clarify this point.

The amount of funding provided by the UK Environment Agency for the laboratory in Llanelli.

Minister for Natural Resources and Food:

- The EA has spent approximately £480,000 in this financial year in preparing the Llanelli laboratory to meet NRW's future needs.

Bovine tuberculosis

Can you please provide us with further information on why this £3.5 million is not required for bovine tuberculosis policy and why it has been transferred to fund Natural Resources Wales restructuring?

Minister for Natural Resources and Food:

- As the then Minister mentioned during the Committee, the majority of the £3.5m budget which was transferred during the supplementary budget motion relates to additional funding available from the European Commission (EC) towards TB testing and TB Compensation. This claim for additional funding is subject each year to approval by the EC of a UK Bovine TB Eradication Plan and is paid out retrospectively. The anticipated income for 2012-13 is £3m. This £3m income along with £0.5m from the £10m Eradication budget was unable to be committed during 2012/13, and so approval was given for funding to be re-allocated to support the NRW ICT Restructuring costs. This is due to NRW's access to the existing legacy systems ceasing after year 2 of vesting date, and as such the delivery of the NRW systems and networks has had to be accelerated, bringing forward increased capital and revenue spend into the programme budget and the first year of NRW's operation.

We further note that you agreed to look at how the budgets supporting bovine tuberculosis policy are presented and we look forward to seeing clearer budgetary arrangements in place when we come to scrutinise the draft budget for 2014-15 in the autumn.

- Agreed.

Natural Resource Management Programme

Can you please provide us with an update on when we can expect further information on natural resource management and a definition of the ecosystems approach?

Minister for Natural Resources and Food:

- The Programme is working towards the publication of the White Paper and the Environment Bill later this year. This will be our opportunity to explain the ecosystem approach.
- Nonetheless, there is a recognised international definition of the ecosystem approach - the Convention on Biological Diversity (CBD) defines the ecosystem approach as '*a strategy for the integrated management of land, water and living resources that promotes nature conservation and sustainable use in an equitable way recognising that humans with their cultural diversity are an integral part of ecosystems*'.
- An ecosystem approach is therefore about ensuring our decisions are based on an appropriate understanding of ecosystems and the services that they provide.
- This links with the purpose of Natural Resources Wales, as set out in its Establishment Order, to '*ensure that the environment and natural resources of Wales are sustainably maintained, sustainably enhanced and sustainably used*'.

- Embedding the ecosystem approach which offers a framework for natural resource management and decision making processes, including the potential for more integrated approaches to environmental management regimes such as Strategic Environmental Assessment (SEA) and Environmental Impact Assessment (EIA) is an key component of the Natural Resource Management Programme.

The legislative programme

Can you please provide us with:

An updated timeline for the four Bills within your legislative programme, including timelines for consultation and expected dates for introduction;

Minister for Natural Resources and Food:

- As you will be aware, the Minister for Communities and Tackling Poverty will now oversee the introduction of the Sustainable Development (SD) Bill and the Minister for Housing and Regeneration will oversee the introduction of the Planning Bill and Planning Consolidation Bill.
- However, I can advise the following:

SD Bill

The White Paper "A Sustainable Wales Better Choices for a Better Future" was published on 3rd December and the consultation closed on 4 March 2013.

We anticipate that the SD Bill will be introduced in the autumn term.

Planning Bill

A comprehensive evidence base has been assembled to inform the Planning White Paper and underpin the Planning Reform Bill. The White Paper and draft Bill will be published before the end of 2013.

Environment Bill

As noted above, the Environment Bill White Paper will be issued for consultation later this year.

Control of Dogs (Wales) Bill

We published the draft Control of Dogs (Wales) Bill for consultation on the 23 November 2012; the consultation closed on the 1 March 2013 and we are currently considering the responses.

Confirmation of the Bills for which we can expect draft Bills to be published;

- As noted above, the draft Control of Dogs (Wales) Bill was issued for consultation last year. We also propose to issue a draft Planning Reform Bill alongside the Planning White Paper.
- We have published / will be publishing White Papers for the remaining Bills. We welcome the Committee's input into the consultations on our proposals set out in the White Papers.

Details of any plans you may have to divide any of the Bills into consolidation and additional powers Bills.

- We have previously announced our intention to split the proposed Planning Bill into two Bills. The first Bill, the Planning Reform Bill, will be published later this year. It will include new and amending legislation to improve the operation of the planning system. A second consolidating Bill will be introduced later. It will consolidate and re state existing planning legislation, including the Planning Reform Bill to create a single Welsh Planning Act.

Environment Bill

In addition to the confirmation of the timeline and details of the consultation process you have planned for this Bill (as requested above), can you please provide us with a list of policy areas that we can expect to be covered by this Bill?

Minister for Natural Resources and Food:

- In developing the options for the Environment Bill we are considering a range of provisions as part of the scoping work, including proposals for any legislative changes that might be required to support integrated natural resource management and other aspirations set out in the Sustaining a Living Wales Green Paper.
- As the detailed content of the Environment Bill is currently being considered, it is too early to provide a list of the policy areas that will be covered. We envisage however that the Bill will focus on providing for more integrated management of the natural environment in Wales and removing barriers in the current regulatory system that prevent such an approach. This in turn will deliver better long-term environmental benefit, whilst also delivering wider economic and social benefits in a more integrated way.

Control of dogs Bill

We will be receiving a factual briefing from your officials in relation to this Bill on 13 March. In addition to confirmation of the timeline for this Bill, I would be grateful for further information in relation to:

- **How it will interact with the planned breeding and micro chipping regulations; and**
- **The timeline for the introduction of the above regulations**

Minister for Natural Resources and Food:

- The three pieces of dog welfare legislation (Dog Breeding, Compulsory Microchipping and the Control of Dogs Bill) are part of a range of initiatives to promote responsible dog ownership and are set out in the Road Map on Dog Welfare which accompanied the consultation document on the draft Control of Dogs (Wales) Bill
- The Animal Welfare (Breeding of Dogs) (Wales) Regulations are currently in the legal translation process and will be laid in the Assembly in June this year. The Regulations will require licensed dog breeders to meet the high standards set out in the Animal Welfare Act, place a maximum staff: dog ratio in breeding kennels and require all puppies to be microchipped and registered to the breeder before sale.
- To further encourage responsible ownership legislation to require the compulsory microchipping for all dogs in Wales will be introduced. The consultation indicated strong support for compulsory microchipping and officials are considering the details. I welcome

the recent announcement by Defra that England would be introducing compulsory microchipping for all dogs by April 2016 and because of similarity of legislation will ensure that similar rules are in place although it is expected that we would have an earlier commencement simply because of the smaller number of animals to be microchipped.

Environmental Impact Assessment Directive

In light of the European Commission's proposals to review this Directive, we would welcome your views on these proposals.

Minister for Natural Resources and Food:

- I welcome the Commission's stated intention to reduce burdens on developers and competent authorities by reducing the number of projects that should be subject to EIA. However, the proposal as drafted will not achieve that objective. Many of the proposals will add significant time and cost burdens to developers and competent authorities. They also cover matters that go against the principle of subsidiarity and should be left to Member States to decide.
- I agree with the UK Government's stance of avoiding increased burdens on businesses. This fully reflects the Welsh Government's position on creating jobs and enabling growth in these tough times. So we will be probing the Commission about any additional burdens created by their proposal.
- Whilst challenging the Commission's view of the burdens created by their proposal, we do not want to lose sight of the opportunity to improve the application of the Directive, as the principles behind the changes support the Welsh Government's approach to sustainable development and natural resources management.
- We have asked the Secretary of State for Communities and Local Government to ensure Welsh Government officials remain an active part of the negotiation process.
- Officials will consult with key stakeholders from each sector on the Commission's proposal, which will inform future Welsh Government representations on any amended text that is put forward during the negotiation.

Operations of Forestry Commission Wales

You will be aware that the Auditor General for Wales published his follow-up report on the operations of Forestry Commission Wales in January. Can you please provide us with your response to the recommendations made by the Auditor General for Wales?

Minister for Natural Resources and Food:

- The report has been considered by Forestry Commission Wales's (FCW) Audit and Risk Committee (ARC) and NRW's Audit and Risk Assurance Committee (ARAC). An action plan has been developed to address the recommendations made in the report and to chart progress against them.

- Wherever possible, FCW are working to discharge as many of the recommendations as possible by 31 March, 2013. Where recommendations will require work that extends beyond this date, they will be the responsibility of NRW.

Water policy

You will be aware that we are currently undertaking an inquiry into water policy in Wales, with a focus on issues of competition and affordability. Can you please provide:

- Your current views on the introduction of competition into the non-household market in Wales (as outlined in the UK Draft Water Bill) and, should competition be introduced in England and not in Wales, what you will do to ensure that Welsh customers are not disadvantaged;

Minister for Natural Resources and Food:

- To date, we have not seen evidence to support the introduction of a competitive market for the water sector in Wales. Our position has not changed at this time, in that we remain to be convinced that the market reform proposals being taken forward in the Bill will deliver the best results for business customers in Wales.
- It is our view that the existing impact assessments which accompany the draft Bill do not provide enough evidence to support the case for non-household water customers in Wales switching their water and suppliers.
- In the draft Water Bill, we have included an order making power for Welsh Ministers to take forward proposals in the future for non-household water customers in Wales to switch their water and sewerage suppliers. We would only use these powers in the future if there was a justifiable case to do so, which delivered results for business customers.
- We are dedicated to developing policy options to ensure that water companies in Wales provide all customers with value for money and a sustainable and effective service. We will be consulting on our policy proposals in our forthcoming Water Strategy for Wales, which I intend to publish later this year.
- This is not about us not wanting to give business customers a choice. We are currently developing work for our Strategy which will look at options for delivering the best, value for money services for domestic and business customers in Wales. We intend to explore a number of ways to deliver efficiency gains, the introduction of elements of competition being just one of the potential options.
 - A timescale for consulting on the proposed Water Strategy and explain the reasons for the delay to this consultation, as the *Programme for Government* states that you would be publishing a Water Strategy for Wales for consultation in Autumn of 2012.

Minister for Natural Resources and Food:

- There is currently a significant amount of work underway to inform the policy development for the Water Strategy for Wales. This work is including engagement with stakeholders, both on an individual level and through a series of events and a review of literature and evidence available in relation to specific policy areas.

- This is a time of significant change for the water sector with the creation of Natural Resources Wales, a focus on Natural Resource Planning, the draft UK Government Water Bill and a change to a more outcomes based approach to investment for the next price review. Engaging with a range of stakeholders at this early stage is essential to ensure that any proposals are achievable and will deliver real benefits for the citizens of Wales.
- It is essential that the Water Strategy for Wales maintains a real Welsh identity and is in-keeping with our culture and values. We will be setting the context of the Strategy in the context of wider Welsh Government commitments, including the Programme for Government, the Natural Resource Management Programme, the Tackling Poverty agenda and the Sustainable Development White Paper.
- Our overall aim is to streamline and simplify the way we work and ensure we have legislation, regulation and planning processes that are effective and fit for purpose to manage our natural resources in Wales. We want a future where we are able to work more in a more integrated, holistic way to ensure that we deliver the best results for the citizens of Wales and that the work of Natural Resources Wales is able to contribute effectively to delivering environmental, economic and social benefits.

Waste policy

I would be grateful if you could please provide:

- **Details of when you are planning to publish or open consultation on the remaining waste sector plans (i.e. Industrial & Commercial; Public Sector; Agriculture; Draft Food Manufacture, Service and Retail; and the Municipal Sector Part 2);**

Minister for Natural Resources and Food:

- Since the publication of Towards Zero Waste, the overarching waste strategy document for Wales, in June 2010, a series of Sector Plans is being developed. The sector plans set out detailed actions to deliver the outcomes and targets laid out in Towards Zero Waste.
- The timeline for consultation and publication of the sector plans is as follows:
 - Following consultation, the Municipal Sector Plan - Part I was published on 10 March 2011 (the proposed Part II is being subsumed into the Waste Prevention Plan)
 - The draft Collections Infrastructure and Markets (CIM) Sector Plan consultation was launched on 10 March 2011 and the final plan was published on the 10th of July 2012
 - The draft Food Manufacture, Service and Retail Sector Plan was launched for consultation on 22 March 2011. The final plan is due to be published Spring 2013
 - The consultation draft of the Construction and Demolition Sector Plan was launched on 8 November 2011 and the final plan was published in November 2012
 - The consultation draft of the Industrial and Commercial Sector plan is scheduled for publication Spring 2013

- The consultation draft of the Waste Prevention Programme is scheduled for publication in Spring 2013
- The Consultation of the Public Sector Plan is scheduled for Summer 2013
- The Agriculture Sector Plan position paper shall be published in late 2013
- A delivery programme is being developed for the implementation of the actions set out in the plans. This programme will be completed during the course of 2014 after the final sector plans are completed
 - **An update on progress with the development of a Waste Prevention Plan for Wales (as required by the Revised Waste Framework Directive 2008/98/EC); and**

Minister for Natural Resources and Food:

- The draft waste prevention programme is scheduled to be launched later this month. It will cover the prevention of Household, Commercial, Industrial, Construction and Demolition waste streams. A key objective is to produce a document which fulfils the requirement of Article 29 of the revised Waste Framework Directive with regard to the production of Waste Prevention Programmes.
- The Waste Prevention Plan will set out a programme of work to meet the waste prevention targets (including the priority materials for waste prevention) described in Towards Zero Waste and set out the business case for doing so. The programme will take full account of the principle that Sustainable Development is the central organising principle of the Welsh Government, will seek to promote jobs and growth in a more resource and materials efficient economy, and will take account of the opportunity to align approaches with those being taken forward as part of the development of the Sustainable Development Bill.
- The final Waste Prevention Programme is scheduled for publication in December 2013.
 - **Information on any steps you will take to support emerging waste treatment technologies that may have the potential to provide a viable alternative to incineration.**

Minister for Natural Resources and Food:

- We keep alternative waste treatment technologies under continual review. The Regional Waste Plans assessed the known existing and emerging technologies, and we carried out a further detailed assessment of options in preparing the 2010 Wales Waste Strategy Towards Zero Waste.
- Local authorities are responsible for making decisions on the technologies that deal with their non-recyclable municipal waste. Each technology is evaluated on its merits when tenders are received by local authorities. The procurement exercises are technology neutral. We will remain technology neutral in our support for future procurements for the treatment of residual municipal waste

- For wastes that cannot be recycled the most sustainable alternative to landfill is energy recovery. This is fully in accordance with the waste hierarchy that puts energy from waste above landfill.
- Evidence gathered by the Welsh Government indicates that the treatment method most likely to deliver best the sustainable development outcomes identified in One Wales, One Planet and in Towards Zero Waste for residual waste is the “Use as a fuel of the residual municipal waste left after recycling in energy recovery plants with high energy efficiency”.
- It is for operating companies to bring forward new technologies and new processes are frequently brought to Government for consideration. There are several types of energy recovery, including incineration. Possible “alternatives” such as gasification and pyrolysis are under development. However, the latter two are usually regarded as “emerging” technologies because they are not in common use in Europe, are still subject to technological proving on a commercial scale, and indeed have failed in places – for example in Germany.

Climate Change

I would be grateful if you could please provide an update on progress made in developing indicators on the ‘wider contribution of others’ in order to measure their contribution to your carbon emission reduction targets.

Minister for Natural Resources and Food:

- We recognise that the desired level of emission reductions cannot be delivered by Government policies alone and there will need to be contributions from other stakeholders and the wider community in Wales.
- We are currently working to identify an appropriate set of indicators to represent the emission reductions being delivered outside of government policy drivers and within the wider public sector. We will provide an update on this in the Climate Change Strategy Annual Progress Report 2013.

Local Development Plans

You agreed to look at the recording of Local Development Plan hearing proceedings. Please provide us with details of how you intend to take this forward.

Minister for Natural Resources and Food:

- This is a matter for Planning Inspectorate Wales, who have provided the following response:
 - Transcription services are currently not provided at planning appeals or development plan/ community infrastructure levy examinations. In recent years the only occasions where this occurred was in respect of the Terminal 5 inquiry at Heathrow and the Dibden Bay inquiries. These were inquiries of national importance and can therefore be considered as exceptional in this regard.

- In the experience of the Planning Inspectorate, both in England and Wales, the transcription of inquiries, hearings and examinations is not necessary and would be a disproportionate cost. It should be noted that the Inspectorate conducts some 20,000 appeals each year, of which 12% are in the form of hearings and 2% public inquiries. In addition, about 80 development plan examinations take place. There is no evidence to indicate that the lack of a transcription service has created difficulties for Inspectors or other participants, or led to any successful challenges to decisions. Inspectors' notes are retained for a period after any event and can be requested under Freedom of Information. Likewise, should a High Court challenge depend upon what was said at an event, Treasury Solicitors may require affidavits from participants.
- LDP examinations deal with the main issues relating to the soundness of the submitted Plan and do not, therefore, report on every representation made in relation to the submitted proposals. Moreover, the aim is to create an inclusive environment, where all participants present feel able to take part. It might be suggested that the formal 'taking of evidence' could inhibit an open useful discussion. Examination documents relied upon by participants are published on the examination website, as are any Matters Arising Changes to the Plan that have come about from discussions at the hearing sessions. Any notes taken by the Inspector, or indeed a planning officer assisting with proceedings, would be written within the context of those published documents and need not record each and every word spoken at the event.
- Managing an inquiry or hearing and keeping a note of material points is by no means an easy task and draws upon the skills of the appointed Inspector. However, that is the role of the Inspector and is one of the reasons that entry requirements, training and monitoring of Inspectors is so high and vigorously enforced. We are not aware of any situations where a transcription of events would have been in the public interest, improved the decision making process or justified given the cost of providing such a service.

Agenda Item 6

Environment and Sustainability Committee

Inquiry into Water Policy in Wales

BAE Systems – Global Combat Systems Munitions, Usk

Interview: 28th March, 2013

Present:

Rhys Morgan, NAFW Outreach Officer (RM)

Celyn Menai Cooper, NAFW Outreach Officer (CC)

Participants:

Engineering Services and Utilities Department

Lee A. Wyatt, Engineering Facilities Manager (LW)

Mark Bull, Works Mechanical Manager (MB)

Outline of Organisation

LW: BAE Systems is a manufacturing site for various medium to large calibre ammunitions. The Engineering Services and Utilities Department deals with all facilities on the site. This includes water, steam, electric, gas and all maintenance and engineering infrastructure. The site has its own sewerage system.

General Water Usage

LW: Having pointed a number of leaks in the piping system, with the support of Aqua Logic (which is part of Dwr Cymru) we were able to go from a 20 cubic meter usage to 1 cubic meter. Dwr Cymru would expect an organisation and site of this size to be have a static loss (through leakage) of around 4–5 cubic meters per hour, so we are doing very well with this mind.

Questions:

Are you aware of the proposed law change to allow non-household customers in England to switch water and sewage providers?

LW/MB: We were not aware until this interview had been arranged.

Do you believe in principle that organisations and businesses in the public and private sector should be allowed to switch supplier?

LW: A fair, competitive advantage should be allowed. We as a company don't necessarily have any competitors in the UK, but our margins would be affected by any change.

Do you think there would be any benefits to switching suppliers? What would they be?

LW/MB (in agreement):

- Create a competitive market;
- Drive of costs.

Do you think there could be any negative consequences of switching suppliers?

LW: Disadvantages will be dependent on suppliers and their monopolies: how independent new companies are.

In principle would you consider switching water supplier?

MB: If the same level of service was provided, we would be happy switching water supplies.

Supplementary Question: Would you consider switching your gas supplier for example?

MB: No. We have a central purchasing order, which sets a 5 year forecast and best prices based on that.

Supplementary Question: Would you be willing to do the same for water?

LW: If it maximised buying power and followed the same format, then yes.

MB: We're currently paying £1.30 per cubic metre.

LW: Financial gain would be the main incentive for us to switch. Reluctance would emanate from the reputation of new suppliers, as if they shut our water off, we would have to shut this site down. A 10% saving or more would definitely make us think about changing, but it would be high risk when considering the new suppliers reliability. We have 650 employees, 250 of which are manufacturing staff.

Do you believe that allowing organisations to switch water suppliers will improve the deal that they receive?

MB: Organisations should have an improved deal, if new suppliers are established correctly.

What impact will allowing your organisation/business to switch water suppliers have?

LW: This will depend on why we would switch in the first place. Whether it is for financial gain or job security, or modernise our facilities. While we do not have any competitors in the UK, there would still be a risk of the site shutting down and moving manufacturing to England if the financial benefit in savings is so much more significant.

Supplementary Question: What kind of effect would this have? If these changes go ahead in England and not in Wales, what impact do you think this could have?

LW: BAE Systems munitions certainly have a unique manufacturing monopoly. If others are benefiting financially in England and not in Wales, the Welsh Government would be looked at again, as failing to be at the forefront of change.

MB: I agree. The effect changes would have on us centrally would be to move the site to England. The site is so vast (over 1000 acres) it would be easy to shift to ensure cheaper manufacturing. Of course, this is very doubtful but the risk is still there regardless.

Are there any measures that would encourage your business/organisation to conserve water usage?

MB: BAE Systems is very much involved in sustainability. We report to the Environment Agency, with our BSA Audit, which is the climate change rebate scheme target which we meet every year.

Key Message

LW: This policy change could definitely lower out costs, however, this can only be done through regulated suppliers and through regulated competition.