



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Amgylchedd a Chynaliadwyedd **The Environment and Sustainability Committee**

Dydd Iau, 21 Mawrth 2013
Thursday, 21 March 2013

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Motion under Standing Order No. 17.42(vi) to Exclude the Public from the Meeting

Yn y golofn chwith, cofnodwyd y trafodion yn yr iaith y llefarwyd hwy ynndi. Yn y golofn dde, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

In the left-hand column, the proceedings are recorded in the language in which they were spoken. The right-hand column contains a transcription of the simultaneous interpretation

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniw	Llafur Labour
Keith Davies	Llafur Labour
Russell George	Ceidwadwyr Cymreig Welsh Conservatives
Vaughan Gething	Llafur Labour
Llyr Huws Gruffydd	Plaid Cymru The Party of Wales
William Powell	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
David Rees	Llafur Labour

Eraill yn bresennol
Others in attendance

Nigel Annett	Rheolwr Gyfarwyddwr, Dŵr Cymru Managing Director, Dŵr Cymru
Mike Davis	Cyfarwyddwr Cynllunio a Rheoleiddio Dŵr Cymru Planning and Regulation Director, Dŵr Cymru
Andrew Fairburn	Pennaeth Cysylltiadau Llywodraeth. Severn Trent Water Head of Government Relations, Severn Trent Water
Diane McCrea	Cadeirydd, Pwyllgor Cymru y Cyngor Defnyddwyr Dŵr Chair, Consumer Council for Water Wales Committee
Tony Smith	Prif Weithredwr, Y Cyngor Defnyddwyr Dŵr Chief Executive, Consumer Council for Water

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Elfyn Henderson	Y Gwasanaeth Ymchwil Research Service
Catherine Hunt	Clerc Clerk
Mike Lewis	Dirprwy Glerc Deputy Clerk

Dechreuodd rhan gyhoeddus y cyfarfod am 9.34 a.m.
The public part of the meeting began at 9.34 a.m.

Ethol Cadeirydd Dros Dro
Election of Temporary Chair

[1] **Ms Hunt:** Bore da, a chroeso i **Ms Hunt:** Good morning, and welcome to gyfarfod y Pwyllgor Amgylchedd a the meeting of the Environment and Chynaliadwyedd. Sustainability Committee.

[2] I invite nominations for a temporary Chair to be elected under Standing Order No. 17.22.

[3] **Llyr Huws Gruffydd:** Cynigiaf Bill **Llyr Huws Gruffydd:** I nominate Bill Powell.
Powell.

[4] **Ms Hunt:** I see that there are no other nominations, so I declare William Powell elected.

[5] **William Powell:** Diolch o galon. **William Powell:** Thank you very much.

9.35 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[6] **William Powell:** Bore da, a chroeso **William Powell:** Good morning, and a warm
cynnes. welcome.

[7] Welcome to this meeting of the Environment and Sustainability Committee. We have apologies this morning from Dafydd Elis-Thomas, Julie James and Antoinette Sandbach. There are no substitutes.

Polisi Dŵr yng Nghymru—Tystiolaeth gan Dŵr Cymru Water Policy in Wales—Evidence from Dŵr Cymru

[8] **William Powell:** It is a pleasure this morning to welcome Nigel Annett and Mike Davis from Dŵr Cymru. I am extremely grateful for the full evidence that you have already submitted to us, which we have had the opportunity to study. I wonder whether you would like to make some opening remarks, speaking to your paper, and then we will kick off with some questions.

[9] **Mr Annett:** Bore da, bawb, a diolch **Mr Annett:** Good morning, and thank you
am y gwahoddiad. Mae'n bleser bod yma y for the invitation. It is a pleasure to be here
bore yma. Llongyfarchiadau i ti, William. this morning. Congratulations to you,
William.

[10] I spoke at a utilities conference yesterday in London. I said that the only purpose of a water company is to deliver the essential public service of clean drinking water and sanitation safely, reliably, efficiently and affordably to today's customers and to look after what is a long-term industry for future generations. All other considerations are secondary to this fundamental purpose, and I cannot stress just how important that is to people here in Dŵr Cymru.

[11] That is what I said at the conference yesterday. I had enormous feedback from other parties at the conference, who were, frankly, jealous of the set up that we have in Wales, of an industry that is owned on behalf of its customers. It makes a lot of difference. I listened to the evidence that the committee received from Professor Martin Cave, who claimed that ideology had no part to play in this debate. From where I sit, it sometimes feels as if there is ideology at work, and it is all about whether the industry is about public service or about commodity. In our case, it is about having a not-for-profit, customer-owned model versus the energy market or what you see in the banks and the financial services, which is all driven by profits. It is about legitimacy versus the distrust that we see in many other sectors.

[12] It seems to us that, when we look at the future of our industry, we should look at it against a number of tests. Currently, in Dŵr Cymru, we have customer satisfaction levels, as you have seen, of well over 90%. Anything that improves on that, we should look at seriously. The water quality that we deliver day in, day out is now well over 99.9%, which is as good as it can be. Anything that improves on that, we should also look at seriously. The

same is true on environmental measures. We raise finance for investment at below 2%, which is almost as low as many Governments. Anything that can improve on that, to raise finance more cheaply, we should also look at very seriously. We have heard in the last number of weeks—certainly, we heard about this yesterday—about a big drive for more infrastructure investment. We are investing a quarter more than we were meant to in these five years in infrastructure in Wales. Anything that can do better than that, we should also look at seriously. There is also a lot of debate in the industry about proper governance. We have a board made up of a majority of independent directors, and we also have members. The only thing that we fuss about is the performance of our industry and the services that we provide day in, day out. Anything that improves on that we should also look at seriously. It seems to me that there are a number of tests that we should look at in deciding whether the direction of the industry in Wales should be different to where it currently sits. I feel quite strongly that some of these debates need to be looked at in those terms.

[13] **William Powell:** Thank you for those opening remarks and for laying your views out so clearly. Could you explore a little further for the committee any additional benefits that you think flow from the Dŵr Cymru business model? Could you also suggest any possible constraints that that model place on the business? Are there any potential disadvantages there that may need addressing?

[14] **Mr Annett:** The advantages are significant. I tried to summarise those in the evidence that we provided to the committee. The talk in the public policy debate that is taking place mostly in England is about maybe £2 billion of savings being created over the next 30 years for the whole industry. Dŵr Cymru represents about 8% of the industry, but has created almost £2 billion of benefits in the last 12 years alone. So, I often wonder whether people are barking up the wrong tree. Should this committee or the Assembly be saying to Government or policy makers in England that they should be looking at a not-for-profit way of doing things? That delivers benefits that are 10 or 20 times bigger than the benefits that they think are available from breaking the industry up and following the model that has been put in place for, let us say, the energy market. So, I think that the advantages are enormous.

[15] However, when we first set up Glas Cymru, we underestimated the cultural benefits that come from being owned on behalf of customers. That feeds through to the way that people behave day in, day out. There is a real public service ethos within the company. I shared with the committee the results of our most recent staff survey, which I found enormously encouraging; those results are very striking. I shared these at our conference yesterday and other companies could not believe how that is possible. So, there are enormous benefits.

[16] The disbenefit that I would be worried about if I was in your shoes and that, certainly, we worry about all the time, is that we are a monopoly and whether that breeds complacency, an inward-looking approach and self-regard, rather than a regard for the people who rely on the service 24/7. I think that those risks can be mitigated by good governance and by benchmarking, which the regulator can provide—we know what good, bad and middling looks like—and by having discipline, incentives and penalties, if I can put it that way, tied to those outcomes. So, it can be mitigated, but it is a real risk nonetheless. However, I think that the benefits that we can deliver swamp the risks.

[17] **William Powell:** In your written evidence, you state that Dŵr Cymru provides a significantly higher level of assistance to customers in financial difficulty than other water undertakings. Could you expand a little on what you said in that written evidence?

[18] **Mr Annett:** We currently have just over 50,000 such households in Wales. That is quite a small number compared with the number of customers who potentially have a problem. We estimate that 14% of our households—about 150,000 to 160,000 households—

spend more than 5% of their household income on water and sewage bills. I cannot tell you just how important this is for us, which is why we have been doing all that we can to keep our bills down. That is what the Glas Cymru model is ultimately all about: keeping this service affordable. We help 50,000 households, and we have a number of assistance tariffs. Welsh water assist is the most important one, which helps customers who are on low incomes and in receipt of certain benefits to get a much reduced bill. I think that, on average, those bills are currently about £220.

[19] **Mr Davis:** Yes; they are.

[20] **Mr Annett:** Our average bill is about £400 and the assistance tariff is just over half of that figure. We also have other tariffs for people who agree to have their water bill paid directly from benefits, which reduces the cost to us of chasing people who have no money and reduces the bill that people who are on benefits have to pay. We have a further tariff with social landlords; if they agree to collect our water bill as part of the rent, we can reduce the bill for them. That is a win-win tariff, in many ways, because the cost to us of chasing that money is much reduced and we pass that saving back to customers in the form of lower bills. We are very proud of the help that we give, but we think that a lot more help has to be given over the years ahead.

[21] **William Powell:** Finally from me, what level of support do you have in terms of telephony and customer service for members of the public who are in the difficulties that you have just described?

[22] **Mr Annett:** Can you say what you mean by that?

[23] **William Powell:** The customer service support for individual customers who are in financial difficulty.

[24] **Mr Annett:** We have set up a separate team of, I think, six people who are based at our contact centre in St Mellons and whose job it is to help people get through the process of applying for these various assistance tariffs. That is one example. We also do a lot of work with Moneyline Cymru in terms of providing additional help for customers. We have found that we often talk about water poverty, but it is not really water poverty: poverty is the problem. In many cases, it is the energy bill that causes the biggest difficulty and we provide help for customers with managing their incomes in the round, as much as with their water bills in isolation. We provide endless help in all sorts of different ways to customers who contact us about paying their bills.

[25] **William Powell:** That is very helpful.

[26] **Llyr Huws Gruffydd:** Rwy'n mynd i ofyn fy nghwestiwn yn Gymraeg. Hoffwn ddod yn ôl at y tariffau cymdeithasol a'r cynlluniau rydych yn eu cynnig—rydych yn sôn amdanynt yn eich papur ac wedi cyfeirio atynt heddiw—i gynorthwyo pobl ag arnynt angen help gyda'u biliau. Yn amlwg, bydd mwy a mwy o bobl, fel roeddech yn dweud, mewn sefyllfa lle byddant angen rhyw fath o gymorth. A allwch chi sôn ychydig ynglŷn â'ch capasiti i ddelio â hynny a pha oblygiadau a fydd gan hynny ar weithgaredd y cwmni?

Llyr Huws Gruffydd: I will ask my question in Welsh. I want to come back to social tariffs and the schemes that you offer—to which you have referred in your paper and here today—to assist people who need help with their bills. Clearly, as you said, more and more people will be in a situation of needing some sort of support. Can you tell us a little about your capacity to deal with that and what implications that will have for the company's activities?

9.45 a.m.

[27] **Mr Annett:** Sori, dydw i ddim ond **Mr Annett:** I am sorry; I can only speak a yn gallu siarad tipyn bach o Gymraeg. little Welsh.

[28] It is hard to say. I am genuinely worried. What, in the future, do we worry about the most? We are worried about things like climate change; we are in the front line for more extremes of weather. However, what really worries me is the impact of the economic downturn on households, combined with the changes to welfare. They will hit some of our least well-off customers hardest. I am genuinely really fussed about this. The fact is that people can often choose not to pay the water bill. Our sanction to enforce payment is very limited. We spend a lot of time chasing people who can pay and do not pay, but most of our customers who struggle to pay the bill do so because they cannot pay. So, we have to do as many things as we can to help those customers. The first thing that we do is to make sure that the bill is not rising. So, our bill is rising by below the rate of inflation and has done for a number of years. It will be a lot lower in 2015 than it was in 2000, when we took over.

[29] The second thing that we do is to provide extra help to the customers who we know are most in need. We are helping 50,000, as I said, but that is still a small number compared with the total who could benefit from that sort of thing. The trouble that we have is that, if I help you as a poor customer, some other customers will pay more as a consequence. That is always a tricky balance to strike. We have recently had guidance from the Welsh Government on social tariffs, which is very helpful. It has indicated that a cross-subsidy of up to 2.5% would be acceptable to allow us to charge people like you and me a bit more to help customers who are genuinely struggling to make ends meet. We will pursue that as best we can. We have a challenge, however, in getting these social tariffs past our regulator, because, to date, it has been reluctant to support any extension of cross-subsidies, whereas, because of who we are and what we stand for, I do not have a problem with helping customers who struggle to pay their bill in all sorts of ways. If that means people like you and me paying a bit more at the margin, I do not have a problem with that, but our regulator, to date, has had a problem with that. The policy guidance that we have had from the Welsh Government is helpful in terms of allowing us to do a bit more in the years ahead than we have done hitherto, but the challenge is enormous—it really is, Llyr. I genuinely worry about that.

[30] **Llyr Huws Gruffydd:** Nodais yn y **Llyr Huws Gruffydd:** I noted in the paper papur eich bod yn croesawu'r canllaw ar that you welcomed the guidance on social dariffau cymdeithasol oddi wrth Lywodraeth tariffs from the Welsh Government. You Cymru. Rydych wedi cyfeirio at rai pethau have referred to some positives, but are there positif, ond a oes pethau a allai fod yn well things that could be improved within that? yn hynny? A oes elfennau negyddol? Are there any negative elements?

[31] **Mr Annett:** The one area that I am slightly worried about is the requirement that any cross-subsidy or any help for less well-off customers at the expense of better-off customers should be supported by customer acceptability. What we have found—which is a shame, in a way—is that, when we survey customers to find out whether they are willing to pay more to help less well-off customers, and you must find this in other areas as well, people say, 'No, we're not, actually'. It is quite hard to get that broad customer support for this sort of thing, which gives our regulator in Birmingham a chance to say, 'You can't do it, because you haven't secured customer support'. If I had one request, it would be for the Welsh Government to take a stand and say, 'Even though, when you ask customers, they are not very keen, as elected representatives of those people, we think that it is okay'. I would like a bit more robust support from the Welsh Government on behalf of customers to say, 'We think that a modest cross-subsidy to help less well-off customers is okay'. That is, up to 2.5%; beyond that, we should have a better consensus to support it. That is probably my one ask.

[32] **Keith Davies:** Gwnaf i ofyn fy nghwestiwn yn Gymraeg hefyd. Roedd adolygiad Walker yn dweud y dylai fod mesuryddion dŵr bron ym mhob tŷ. A dilyn yr hyn roedd Llyr yn sôn amdano, y teuluoedd a fydd yn dioddef, efallai, yw'r teuluoedd sydd â nifer fawr o blant. Beth yw eich barn am bob tŷ yn cael mesurydd dŵr?

Keith Davies: I will ask my question in Welsh as well. The Walker review stated that there should be water meters in nearly every house. Following on from what Llyr said, the families who will suffer, perhaps, will be those with a large number of children. What are your views about every house having a water meter?

[33] **Mr Annett:** Gosh, metering—it is a very live topic, as you know. About a third of our customers are metered currently, but we are pretty passive in the matter of metering. Anna Walker, by the way, is a non-executive director of Dŵr Cymru, so we know Anna very well, and Anna would not promote metering in Wales. It is not the answer to all the issues. If you ask people in the street, ‘Is a meter a good idea?’, they tend to say, ‘Yes, it is the fairest way to pay for water’. However, it is important for us all to remind people that it is not a cost-free option. Meters are a very expensive way to collect the water bill. They add about £50 to £70 to the bill, just for the meter itself, whereas collecting water bills on the basis of an unmeasured charge is very cheap. Secondly, the point that you make, Keith, is that a large family will pay more for water than a small family, but the cost to Dŵr Cymru of supplying both households is exactly the same. The cost of supplying water varies by geography, not by water use. Does that make sense? It is because the cost is for the infrastructure, so the customer in the middle of Cardiff is very cheap to supply, but somebody at the end of the Llŷn peninsula is very expensive to supply. Whether households use 10 litres a day or 100 litres a day, the marginal cost difference is very low. So, to have the cost varied by water use, and quite dramatically as well, can in most cases be quite regressive.

[34] So, we are not enthusiastic about extending metering. We give people a choice, but we do not promote metering. The current regime of attaching water bill calculations to the rateable value is nonsensical, but we are stuck with that. Likewise, the system of putting everyone on meters, particularly when we are worried about bills, is not the right answer either.

[35] **Keith Davies:** Un o'r pethau rydym ni yn y Blaid Lafur yn ei wthio—fel y dywedoch yn eich pwynt olaf—yw'r *mansion tax*. Os yw'r bil dŵr yn dibynnu ar y dreth gyngor, bydd y tai mawr yn talu mwy beth bynnag, oni fyddant? Byddai hynny'n iawn.

Keith Davies: One of the things that we in the Labour Party have been pushing for—as you mentioned in your last point—is the mansion tax. If the water bill depends upon council tax, the big houses will pay more anyway, will they not? That would be right.

[36] **Mr Annett:** It is rateable values that we are using, which were frozen back in 1990 or thereabouts, so these numbers are very out of date. People in the past have looked at council tax, but not more recently. However, if you live in Scotland, your water bill is collected alongside the council tax. That is not for now, perhaps, but is that a better way to collect water rates? If I could turn back time, perhaps I would say ‘yes’.

[37] **Vaughan Gething:** Just to follow up, as Keith raised the point about metering, I think the phraseology used is ‘incentives to use water more effectively and efficiently’. Metering is often put side by side with that. I appreciate that there is potentially a difference between non-household customers and household customers, and about how you see the water bill itself. If you are not going to have metering for domestic customers, what do you see as the incentives for them to use water more effectively and efficiently? How does that relate to non-household customers? I know they are two distinct markets. We are being told first off that if you were to have competition, it would be for the non-household sector anyway.

[38] **Mr Annett:** You are absolutely right. For business customers, water is a commodity. For household customers, water is a public service, and it is about public health. Those two things are different. When people turn on sprinklers in the garden they are using a public service as a commodity, and that is where the two things overlap, if you will. My own sense is that most water use inside the house is non-discretionary. There is no utility from keeping the tap running, for example. So, much water use is what you need to use, which is why a family of four will use four times more water than a family of one. That is the way it works. You are right that, sometimes, when meters are installed, there is a short-term impact on water demand, but because water use is non-discretionary, the impact of metering over three, four or five years will fall away. Water costs about £1.50 per tonne to supply. It is very cheap and inexpensive, and when people realise that—those who can afford to pay their water bill in the first place—they have a limited incentive to reduce their consumption to affect their bill. You can make some changes at the margins, but not big changes, because water use is non-discretionary.

[39] When it comes to water efficiency among households, our own experience is that education and hearts and minds have a bigger impact than saying, ‘We’ll charge you more for it’. That is our experience. It is just worth bearing in mind that, within Wales, the amount of water that we abstract for the public water supply has fallen by a quarter—a full 25%—in the last 20 years. That is because of lower leakage and because of demand from heavy industry falling away. In Wales, we are always seeking to leave as much water in the rivers as we can manage, but we are not in the same situation as the south-east of England, for example, where the demand for water is rising very sharply and everything is running out. We are not in that situation in Wales. The economics are very different. Going back to what Llyr was saying, our priority is to keep things affordable. If you add meters to people’s bills, you put bills up; you do not keep bills down. That has to be a big consideration for us.

[40] **Vaughan Gething:** That leads on to the second point that I wanted to raise. We have had it put to us that there are incentives to use water more efficiently, but where are the incentives to deal with things like leakage and the impact of greater rates of abstraction? It is interesting that you say that you have actually reduced consumption by 25%, but is that per head or is that the overall total volume? Also, how do you respond to the question of where the incentive is for a company to deal with leakage if, actually, water is so cheap to pump around that it does not really matter? How do you then deal more effectively with the wider policy imperative to do something about the amount of water that is abstracted and goes into the system in any case?

[41] **Mr Annett:** On the first point, the amount that we abstract has fallen by a quarter overall, so that is the amount that we take from rivers in Wales for the public water supply. Our leakage performance now compares with the very best in the industry. The level of leakage is at that level where the cost of reducing it further would increase bills. Leakage is not costing any money to you or me as customers. It is not costing you or me anything in terms of its environmental impact. We keep leakage at a level at which it is economically and socially sensible to keep it. We deal with 20 bursts every day, and we find and fix 100 leaks every day. There is a vast network of pipes across Wales, and Herefordshire and Deeside as well. It is a constant job to keep this under control. The amount of money that we spend doing so is at the level that keeps the leakage under control and makes sure that we have enough water to supply our customers. We keep the cost of leakage control at an affordable level. That is the balancing act that we carry out all of the time. I do sometimes worry that leakages are seen as a bad thing in all circumstances, but we must always keep leakage at an economically sensible level, and it is certainly at that level now in my view.

[42] **Vaughan Gething:** I have a different point, Chair, on a point in the evidence, which is very interesting. You have your performance scorecard, which is on page 19 of our document pack. I do not understand all of the headings and I would quite like to understand. I

can understand some of them, such as the WTW bacteria compliance, but there is one where you have a target of 100—some of them extend beyond that—but it is not a percentage target. I do not understand, for example, what the iron indicator is in the safe drinking water category because that is at 50, which is half of your target. Incidents are also roughly around half of your target. As you go along, there are other things, but, as I said, I just do not understand what the categories are. I would quite like to understand them.

[43] **Mr Annett:** I would be happy to go through it now if you wanted me to, Chair.

[44] **Vaughan Gething:** Perhaps you could send us a note setting that out; that would be helpful.

[45] **Mr Annett:** I would be very happy to do so. However, just to answer very quickly on the iron indicator: it is a measure of compliance with the standard for iron in water. Iron can cause discolouration. Last year, we took 300,000 samples for water quality and we found that 15 of those 300,000 did not pass the standard for iron compliance. We had 11 sample failures in the previous year. The targets on that scorecard would place Dŵr Cymru in the top three of the 10 water and sewerage companies on all of those measures. This is simply a basket of measures, and the reason I share it with the committee is to demonstrate how an organisation can be motivated and incentivised to deliver outcomes that matter for you and me as customers.

[46] **Vaughan Gething:** A note explaining all of that would be very helpful.

[47] **Mr Annett:** I would be very happy to provide one.

[48] **Vaughan Gething:** Thank you very much.

[49] **William Powell:** Thank you very much for that clarification. There is one final point on this particular aspect from Russell George.

[50] **Russell George:** You mentioned that the costs for metering would be around £50 to £70 on a bill. That is presumably a one-off charge at the beginning.

[51] **Mr Davis:** No, it is not a one-off charge. There is the cost of actually installing the meter, and that is around £250. However, that is obviously not charged to the customer at the time. It is recovered over the life of the meter, which is around 12 years. The other element of the ongoing cost is actually reading the meters and then processing those meter readings and actually producing the bills from them. That is the additional ongoing cost of metering as well as the capital costs.

10.00 a.m.

[52] **Mr Annett:** That is not our calculation—it is a number accepted across the industry, so it is a regulator's number. It is not as if we have cooked up a figure of £50—that is a number that is accepted by the regulator as the cost of metering.

[53] **Russell George:** Is the £50 to £70 the cost per year based on the figures that you have talked about?

[54] **Mr Davis:** In terms of the charges that we make to customers, if the unmeasured customer and the metered customer are using the same amounts of water, the metered customer will be charged between £55 and £70 more than the unmeasured customer. That is set in tariffs that have been approved by the regulator.

[55] **Russell George:** That leads on to my next question. What analysis has been done as regards domestic use—how much water do people who do have a meter and who do not have a meter use?

[56] **Mr Davis:** That is a key question. The people who opt for meters are the ones who use lower amounts of water. So, even though they have to pay more for the meter, their consumption levels are so far below the average that they benefit.

[57] **Mr Annett:** All second home owners are on meters.

[58] **Mr Davis:** We have not done a great deal of studies on comparing a metered customer with an unmeasured customer on a like-for-like basis. Surprisingly, not that many studies have been undertaken by the industry on that. People often refer to a study that was undertaken in the Isle of Wight back in the 1990s as the source of data for justifying metering. If metering is going to become an area of public policy, an awful lot of data need to be collected to understand the impact.

[59] **Mr Annett:** On the Isle of Wight experiment, which goes back 15 years, in the first instance, demand for water fell by between 6% and 8%, so that was the first impact. However, over the subsequent years, it trended back up to the old levels of usage. However, the real benefit of that metering campaign was to accelerate the ability to fix leaks. We supply water up to the stop tap. There is a pipe beyond the stop tap, and if you are on a meter and that leaks, you will get it fixed, whereas if you are not a meter, you will simply ignore the leak and let it run. Southern Water found that its ability to control leakage was much improved by having meters everywhere, because leakage on the customer side of the stop tap was identified much more quickly than on the other side.

[60] **Russell George:** That was exactly the case of a constituent who had a very high water bill one year, so it was obvious that the leak was going to be between the meter and the pipe. If that meter was not there, that would have gone under the radar.

[61] **Mr Annett:** That is absolutely true. We probably would have picked it up because we meter every 200 properties on our system. This is a constant analysis to make sure that we can see where water use is changing. We do it in the middle of the night, because that is when water use is at its lowest, so you can see changes in volumes. If there is a change in volume from one night to the next, we know that we have got a leak and we will then go to find it. We will typically find it. However, you are absolutely right that a leak on the supply pipe side could run for a lot longer than on the other side.

[62] I should also mention that when there is a supply pipe leak on a meter, we repair the first leak for free and we do not charge the customer for the water lost through the leak.

[63] **Russell George:** This is my last question. I am a Severn Trent Water customer, but how would you give your customers the choice to have a meter? Is that made easy?

[64] **Mr Davis:** Yes, it is a very straightforward process. The customer applies for a meter and they have a trial period of 12 months with the meter.

[65] **Russell George:** How are they made aware that that is a choice?

[66] **Mr Davis:** It is in the booklet that we send out with the bill. It is also available on our website and all our other channels of information. The key thing is the 12-month trial. If they choose to have a meter installed and they find that their bill is not cheaper by having a meter, they can revert to being on an unmeasured basis. For those customers where it is physically difficult to install a meter because of where the supply pipes are, they can still be charged on a

metered basis, but it is an assessed meter charge based on our assessment of their usage.

[67] **Mr Annett:** However, let us not lose sight of the point that meters increase bills in Wales. So, we are not in the business of encouraging people to go on to meters to increase everyone's bills.

[68] **Russell George:** If that is a disadvantage, how is that choice being advertised?

[69] **Mr Annett:** We make the choice available but, as I said, we are not aggressively promoting this choice.

[70] **William Powell:** That is really helpful for the whole committee to gain a better understanding of some of the difficulties around metering, because it tends to be looked at rather simplistically by many people.

[71] **Mick Antoniw:** Thank you for your paper. You obviously heard the evidence that Martin Cave gave last week on this particular subject, which is of considerable importance for the future. A summary of some of the written and oral evidence that we have received is that what the Bill is proposing, by introducing competition, is to create a situation where, for example, business has a choice. So, for example, Port Talbot steelworks could choose its supplier and shop around for cheaper water. Severn Trent could say, 'Well, look at us; we are private and our bills are £100 lower than anywhere else in Wales.' Ofwat says that there are potentially, across the UK, billions of pounds-worth of savings from it. When you put that together, surely what they are suggesting must be a good idea.

[72] **Mr Annett:** Gosh. As I said at the outset, Mick, first of all, people talk about £2 billion of savings as a result of all these changes. We say that we have saved approaching £2 billion in 10 years alone without all those changes. Those changes do not come cost-free, because any impact on the cost of finance, for example, swamps those numbers. The £2 billion that you talk about is 1% of the projected expenditure over the 30 years; these are very small numbers. That is my main point. Let us start with business customer choice; we are very much in favour of business customer choice, but let us make sure that we understand what we mean by that. First, the amount of money that is at stake is very small indeed. Most of the service we provide is fixed and is in the water supply. The retail part of the business is miniscule in the grand scheme of things, so we must be absolutely sure that business customers' expectations are realistic. With choice, people might think they make big savings, but the retail part of the business is very small indeed. Our revenue is £700 million a year. The cost of billing—the retail part of looking after our 1,700 largest customers, who are the customers we are talking about here—is £250,000. That is the number that is at stake from competition. So, we need to be realistic that that is what choice is playing for, if you will.

[73] The second thing to worry about is that the cost of setting up a system to allow people to switch between suppliers and different retailers is quite expensive. In Scotland, it cost £22 million. The current estimate for England and Wales is £40 million. However, we know from energy markets that those early estimates were doubled, tripled and quadrupled by the time it was all done. The third thing, which is probably our biggest worry, is that because the margin is so small and, therefore, there is very little to play for, will the regulator or policy makers say, 'Well, if we need to widen that margin to attract people into this market place, somebody else has to pay the difference and the people who pick up the bill are household customers'? Going back to Llyr's point, that is where we are coming from: how do we keep the industry as a whole affordable? What we want to avoid is a situation where the level playing field, if I can call it that, is tilted to attract new entrants into the market place.

[74] To emphasise, the numbers are very small indeed and we need to make sure that expectations are realistic. There is a cost to setting the system up, and we must make sure that

there is no de-averaging, or other adjustments, simply to create a profit stream that people find attractive—cherry-picking and all that sort of stuff. In principle, should business customers be able to choose between us and somebody else, particularly if we have done a bad job? Absolutely.

[75] **Mick Antoniw:** On the proposals as they are, you said right at the beginning that you felt that some of the proposals were almost ideologically driven and that there was an ideological pressure. My view is that public commodities clearly are an ideological issue, because it is a question of how you value and see their role in society and that is what makes it so. We had some evidence from Martin Cave on the international position, but in terms of your practical experience of running a major water company, is this something that has been tried anywhere else in the world? Has anywhere else gone down this road and are they able to show benefits or disadvantages one way or another?

[76] **Mr Annett:** No. Scotland is the only place where you have so-called ‘retail separation’ between the water company and the retailer who looks after non-household customers. That is the model that has been pursued. That is the only place where this has happened. Elsewhere in the world, by and large, the water industry is still in public hands—it is municipally owned. In many ways, Glas Cymru is like a half-way house because we are owned by customers who rely on us. So, we are in that hybrid situation, but, elsewhere in the world, the water industry is municipal.

[77] **Mick Antoniw:** One suggestion that came out of the evidence that we had the other week was that, by turning water into more of a commercial commodity, it created almost a market in the sales of water from one area to another and so on. It creates a certain perception that something that is behind the water bill is about how we solve the water problems in one area by using another. I know that you have given evidence to a previous inquiry on this. However, how realistic is it to look at water as a commodity that could be shipped off from one area to another? Does it, for example, represent a potential new coal in Wales or a new saleable commodity for the Welsh economy and so on? How realistic is any of that?

[78] **Mr Annett:** I wish. It would be wonderful, would it not, if we had all of this water to sell to other people and reduce bills further for the people of Wales, because if there were a benefit there, it would come back to the people of Wales? That would be fantastic and maybe make good some of the disadvantages they have suffered in the past.

[79] The water industry is organised in a very obvious way around water catchments. Your water runs downhill, which is why you have the boundaries where they exist. Water is very heavy—1,000 litres weigh a tonne. It is also very cheap, as a tonne of water costs £1.50. The cost of moving water, if you have to pump it, is very expensive. If you can run it downhill, that is fantastic and, wherever possible in Wales, we run water downhill to keep our costs as low as possible, but when you start pumping water, it becomes fabulously expensive. So, the scope for any part of the country to transfer large volumes of water to other parts of the country under gravity is very limited. Once you start pumping it, the costs are very high indeed.

[80] The south-east of England is where the problem resides, because it has a growing population and it uses, for example, 50% of rainfall. To put it in context, we use 3% of rainfall in Wales. The demand for water in Wales is falling while the demand in the south-east is rising. However, the answer to the south-east’s problem is not more water motorways, but more bypasses, linking existing water or reusing water in particular. In Victorian times, it may have made sense to build major infrastructure but, today, technology allows water to be reused in a way that was not possible in Victorian times. So, that is where the answer to all of that lies.

[81] I must say that I did listen to Martin Cave speak and his reference to punching a hole in the wall to move water from one place to another is so naive because, at the edge of our system, we do not have trunk mains. Any impression that you might have that we have big water mains running up to the boundary, which is where it will stop at that point, is nonsense. The system gets very rural at the margins because you are at the edge of your territory and the ability to move water from one geographical area to another at low cost is extremely limited. We would have done it by now if it were cheap.

[82] **Mr Davis:** The other point is that there is a perception that Wales has plenty of water; it has plenty of rain, but we do not capture all of that rain and the capacity that we have is the capacity sufficient to meet our needs. So, we do not have surplus capacity. All of that surplus capacity would have to be built, and the cost of building the infrastructure around that would be very large.

10.15 a.m.

[83] **Mr Annett:** It would be much more costly than it was 100 years ago, and much more costly than the cheaper options these days. Australia now uses membrane technology, taking waste water, putting it through a treatment process and reusing it. That technology has moved on in leaps and bounds over the last five, 10 or 15 years; it is now cheaper than moving water any distance, for example. If you go to London, you drink water that has already been through six other people; in five years' time, it will have been through 10 people.

[84] **Mick Antoniw:** In the evidence we have received, there is talk of the introduction of competition in various areas; you have heard the various representations that have been made on that. You presented very highly what you think is the value of the governance structure of Dŵr Cymru. There are, of course, grey areas and areas of conflict in terms of the devolution process—there is a grey area in which there is potential for quite a lot of conflict. What are the implications of introducing competition in respect of the governance structure that you currently have? What impact would it have on that?

[85] **Mr Annett:** I believe that you are thinking about what is happening in Herefordshire; is that what you have in mind, Mick? We supply most of Wales, most of Herefordshire and most of Deeside. We may end up in a situation where the Welsh Government takes a more cautious approach to some of the reforms that are being debated. England takes a much more aggressive and experimental approach. We may end up having two regimes in Herefordshire. Our starting position is that we do not see why people in Herefordshire should not enjoy the benefits of the Glas Cymru model. Those advantages are enormous, and why should we deny people in Herefordshire simply because they are covered by an English regime?

[86] Part of me also questions whether we should be promoting our model to England. I am in two minds about that, because we quite enjoy being top of the pops and on top of the league tables. The longer the other regimes stay as they are, the more likely it is that we are going to stay on top. From a public policy point of view, we should be extending this model elsewhere. However, from a narrow Dŵr Cymru point of view, we are quite keen to be in front of everyone else.

[87] Our position on Hereford is that the people in that area should enjoy the benefits of the Glas Cymru model, despite the fact that they are in England. However, if it were to turn out that we had to live with two regimes—one regime for Hereford and a different regime for Wales—we would be fine with that; we could manage, for sure, and we already do so on the environmental regulation side. We have an environmental regulator, which is now to become natural resources Wales, but we also have a different regulator in Hereford, which remains under the Environment Agency. We can live with two regimes if we have to.

[88] **Mick Antoniw:** After Saturday's result, your benevolent approach to the people of England is much to be admired. [*Laughter.*]

[89] **Llyr Huws Gruffydd:** Following on from Martin Cave's evidence, we mentioned the dynamic efficiencies that could be realised by introducing competition to the upstream market. What more could be done within the structure of the industry in the UK to try to encourage those kinds of dynamic efficiencies if some people are sceptical about whether competition would deliver in that regard? How else can it be done? You have told us about some of the efficiencies that you have realised. How can this be encouraged throughout the whole industry?

[90] **Mr Annett:** I really struggle with this, Llyr. When people talk about competition, they are talking about the profit motive and how they make a quick buck from doing other things better. In water, particularly water resources, as Mike said, if you have to create new resources, the cost of new reservoirs and trunk mains is phenomenal. In that context, the only cost that really matters is the cost of finance. If Dŵr Cymru went to the market today for another bond issue, we would have to pay a 1.2% interest rate plus RPI. If you set up a company yourself and said, 'I am going to build a new water treatment works to supply Welsh Water', as a new entrant, your cost of finance would be 10%, 12% or 15%. The two numbers are chalk and cheese—they are a million miles apart. It seems to me that collaboration rather than competition will deliver better outcomes in that context. This is particularly true in south-east England, where they can do lots of things to share water resources better. However, I am not sure whether the profit motive will encourage that. I think that what will really make things better is building on the natural instincts of water companies, which are very evident within Dŵr Cymru, which are about public service and long-term stewardship of an essential industry, and collaborating with other organisations to do the best that you can for the people who rely on you. That sounds rather high-brow, I know, but, in our company, that is how we think and how we look at things. So, if somebody was able to come to us or we were to go to someone else and they were to say, 'We could deliver a better outcome for your customers', we would always grab it.

[91] There is a procurement responsibility, as well. We spend £300 million to £350 million a year on capital investment. All of that is done through our procurement process, whereby we get the best price that we can from the marketplace. So, the industry already gets the benefits from a lot of competition, but it is competition for activity rather than competition for the market, if I can put it that way around. I am not sure that that really answers your question, does it?

[92] **Mr Davis:** I want to add one point. Again, there is this assumption that all water that is abstracted is abstracted by the water companies. In Wales, we abstract roughly 60%; in terms of the licences, the other 40% sits with other organisations. Often, they will not use those abstractions. One of the issues is that there is not a marketplace for abstraction rights trading, because there is no value assigned to them. That would be one way of bringing in other resource from outside of the water company and making it available for public supply.

[93] **Keith Davies:** Rwy'n mynd i ofyn fy nghwestiwn yn Gymraeg eto, ac efallai defnyddio un term Saesneg. Yr hyn rwy'n gweld o'r gystadleuaeth hon yw y byddai'r cwmnïau mawr yn gwneud *cherry-picking*; byddent yn edrych ar gael eu costau i lawr a gweld eu helw yn mynd yn uchel iawn. Yr hyn y gwnaethom ofyn i'r Athro Cave yr wythnos diwethaf oedd, achos lle yr ydym yn awr gyda newid hinsawdd, rydym yn cael **Keith Davies:** I will ask my question in Welsh again, and perhaps use one English term. What I see from this competition is that the large companies would be cherry-picking; they will look to get costs down and to see that their profits go very high. What we asked Professor Cave last week about was, because of where we are now with climate change, we have flooding all the time, so, if you were to lose this large amount of money from the

llifogydd trwy'r amser, felly, os byddech yn colli'r arian mawr o'r cwmnïau mawr—yn eich ateb i Mick, dywedasoed na fydddech yn colli cymaint â hynny o arian, ac roeddwn i'n falch o glywed hynny—pwy fydd yn edrych ar ôl y problemau ar ran llifogydd sydd gennym yng Nghymru yn awr? Dyna'r hyn sydd yn fy mhoeni. Rydych chi'n gwario arian mawr yn Llanelli, oherwydd bod problemau gennym. Beth fydd yn digwydd yn y fan honno, os oeddech chi'n colli allan i gwmnïau eraill?

larger companies—in your response to Mick, you said that you would not lose that much money, and I was glad to hear that—who would look after the problems in terms of flooding that we have in Wales now? That is what worries me. You are spending large amounts of money in Llanelli, because we have problems. What would happen there, if you did lose out to other companies?

[94] **Mr Annett:** That is the point that I was trying to make earlier, Keith. The bit that people are talking about competing for is the retail element of the bill only. The water that we supply to our large customers would be the same in all circumstances. So, there is a debate as to what that retail bit is, but, for large customers, if it is 1% of the total bill it is probably as much as it can be. So, 99% of the bill is the cost of the infrastructure and the cost of taking the water to the site. It does not cost very much to produce a bill for, let us say, Tata, and it does not cost us very much to persuade Tata to pay its bill. The real cost is the pipes, the treatment and the pumping to get the water to the Tata site. Therefore, if a third party came in and took our place as the retailer, we would charge that 99% to that retailer and so 99% of the revenue would still come to us. Frankly, what we find in other places is that, if there was an issue with, let us say, the water pressure or the quality of the water, Tata would ignore the retailer and come through straight to us, so you are adding a stage.

[95] Now, the big debate is whether the regulator can make that 1% a much bigger number to make it more attractive. That is our biggest worry, because, if the regulator said, 'Okay, the true cost is only 1%, but we are going to create more profit and make it 5%', that extra 4% would have to be paid for by somebody else, and what we have seen from bitter experience is that the people who pick up that bill are the poor customers who have no choice. That is our biggest worry by far. However, in terms of the amount of revenue that is coming into the Dŵr Cymru water industry, losing a large customer for the retail part would not make a lot of difference.

[96] **Mr Davis:** Something to bear in mind is that there is already competition for the very largest customers. Customers that use more than 50ML a year are eligible. Of our large customers—there are 113 large customers, the Tatas of this world, who could choose suppliers if they wanted to—none have chosen to change suppliers.

[97] **Mr Annett:** I will just add, if I may, that we do regular research with our customers to find out what they feel about the service that they are getting and so forth, and the feedback that we have had from our biggest customers is very encouraging and good. We are very conscientious. For those large customers, a reliable, high-quality water supply 24/7 is crucial. That is a big priority for us. We look after those customers extremely well and extremely carefully, and we are not putting bills up.

[98] **William Powell:** Cawn y cwestiwn **William Powell:** We will have the last olaf gan David Rees. question from David Rees.

[99] **David Rees:** I think that Llyr Huws Gruffydd asked most of the question that I wanted to raise. The competition discussion that we had with Professor Cave was about the abstraction and supply element, because that is where he felt that it was more likely to occur. You have answered most of this question, but you talked about the licences. You own 60% and 40% is out, but that means that there is a commodity therefore, and trading could possibly

occur if that side of it goes into that arena. What implications for Welsh Water and other utility companies as they exist today would such competition create in the operation and future of the organisation? Also, what would be the impact upon households?

[100] **Mr Davis:** The implications for us are probably fairly limited, because we have access to sufficient water for our needs. The reason I raised it is because it is one of the issues, particularly in the south east of England, where a similar position occurs where the water companies do not have all of the abstraction, and there are others with abstraction licences. Given the forecast shortages of water there, one way to address that is to place a value on water, and one way of placing a value on water is to place a value on the abstraction rights and then allow people to make the choice between using the water for agriculture in an area or freeing it up and selling it to the water company for public supply. That was the basis on which I raised it. In Wales, it would not be a huge issue for us. We certainly would not be selling our abstraction rights.

[101] **David Rees:** If all abstraction rights were taken up in Wales, would there still be sufficient resource for our usage within Wales?

[102] **Mr Davis:** The water resource management plan assumes that a proportion of the unused licences will be used, so there is a contingency and a safety management element in that.

[103] **William Powell:** Diolch yn fawr am **William Powell:** Thank you both for coming ddod heddiw. today.

[104] Thank you for your comprehensive answers to our questions. There is little that could be of greater importance than a supply of safe water for all the population of Wales, and it is also vital for economic development. So, it is a critical topic that is the subject of our short inquiry, and we are extremely grateful for the contribution that you have made today. Diolch yn fawr.

10.28 a.m.

Polisi Dŵr yng Nghymru—Tystiolaeth gan Severn Trent Water Water Policy in Wales—Evidence from Severn Trent Water

[105] **William Powell:** Good morning. I welcome Andrew Fairburn, head of government relations for Severn Trent Water. I am extremely grateful to you for having joined us this morning to contribute to our short inquiry. We have received quite a substantial body of evidence from you in advance, which has been useful to us. I wonder whether you would like to make a short opening statement to put that into further context, and then we will kick off with colleagues' questions.

[106] **Mr Fairburn:** Thank you for inviting us here this morning. We have three points, basically. First, the water industry has achieved a lot over the last 20 to 25 years. Water quality standards for people are higher, environmental standards are higher, our rivers are generally in better condition than at any time since the industrial revolution, and leakage is down throughout the industry, so there has been a lot of improvement. We are not talking about a basket case here. The second point that we want to stress is that life is changing. We have climate change, we often have too much water and flooding, and we have too little water and droughts. How do we deal with that? We have population growth. Customers' bills are rising higher than inflation. What does that mean for affordability? What is the long term there?

10.30 a.m.

[107] Moving water around takes a lot of energy. We have carbon taxes, et cetera. The environment in which we live and in which the water industry works and the pressures that we face are changing. Our third point, therefore, is that the water industry needs to change. If we want to keep people's bills down in future and if we want to achieve the environmental outcomes that we want to achieve, then we have to change. What does that mean? We need to be innovative. If you take one thing away from what we have to say, we would like it to be 'innovation'. So, how can you be innovative? The regulators and policy makers can be innovative in the way that they implement regulations and legislation. There is lots of scope there, including with the water framework directive, to get the outcomes that you want, but get them in the smartest way. For water companies, I think that we need to be innovative. It is in that context that we support, as a general principle, the introduction of some competition into the water industry, because we think that it will reduce customers' bills. However, we think that probably the biggest advantage that it will bring is that it will drive environmental innovation and sustainability and innovation in how we serve customers. We think it will help spur that. We do not see it as a binary thing; we do not see it as, 'You've got to have full-scale competition à la Sainsbury's and Tesco, or you can have no competition and just live as a monopoly'. We see a much more subtle gradient to it than that. In some areas of what we as water companies do, it is appropriate that we have competition to keep us on our toes, to hold us to account, and to drive us to new ways of doing things. In some areas, it is probably not appropriate. You are never going to build two pipes down one street. You are never going to build two sewage treatment works in one village. That would not make sense, but in some areas competition does make sense and I would be delighted to share our thoughts on that.

[108] **William Powell:** Thanks very much. In your written evidence, there is reference to the partnership working that already exists between Severn Trent and the citizens' advice bureaux, for example, in terms of bringing debt counselling and wider financial advice to customers who find themselves in difficulties. I wonder whether you could expand a little further on how that works in practice, and on the benefits of that approach.

[109] **Mr Fairburn:** The context here is: how do we help customers in need? I agree very much with the point that it is not so much a water poverty issue—although I am not minimising water poverty—but a poverty issue. If you are struggling with your water bills, the chances are that you will be struggling with your energy bills, which are three or four times the amount, and other bills. So, how can we do our bit to help our customers? No. 1, we can keep bills down, and we are very proud to have the lowest bills in England and Wales—our bills are about £100 cheaper than water bills are in much of Wales. No. 2, you give targeted help to those who are struggling with their bills. There are lots of schemes available for that. One of the innovative ways that we are experimenting with now goes back to our experience that, if you are struggling with your water bill, the chances are that you are struggling financially anyway. So, how can we help people in that position? Fifty quid or £100 off their water bill is welcome, but it is probably not going to be a life-changer for them. We work with a couple of charities, and we have started a pilot scheme in Coventry, which we are a year into now, whereby we provide a grant to Citizens Advice and so we can refer people to the bureaux, and they can sit people down—it is important that it not us, but Citizens Advice, a third party—and help them get on top of their finances generally. What outgoings do they have? How can they maximise their income? How can they budget? How can they plan, et cetera? It is that helping hand. We are finding that we get benefits from that—we are more likely to get our water bills paid—but also our customers are getting benefits from that, because they are getting help with a broader range of issues.

[110] **William Powell:** Thank you very much for that. In your written evidence, you also give an account of the recent partnership that Severn Trent has undertaken with Costain, again to seek to benefit customers. I wonder whether you could give us further insight into how that

operates.

[111] **Mr Fairburn:** This is what we call retail competition, but it is retail competition plus, if you like. I do not want to get hung up on words—competition et cetera—because for some people competition can have positive connotations, and for some it can have negative connotations. It is about the service we provide to non-household customers, and it could be Severn Trent Costain or it could be anybody. We go in and instead of the customer—First Milk, for example, is a customer—getting lots of different bills from lots of different water companies, it gets one bill from us. So, does it get a cost saving? Yes, it does, but it also gets an administration saving. A report by Policy Exchange said that that could save a big company up to £200,000 a year. So, it is not just the price—it saves them on the administration.

[112] However, the biggest benefit—there are environmental benefits, cost benefits and benefits for the wider community as well—if you are working with a large dairy, a large brewery or a large industrial park and you are their retailer, so you are not supplying water, is to help them to save water through energy efficiency measures. There are lots of ways to do that. For example, you may be sitting in a place where it is appropriate to drill a borehole and, if you do that, you do not have to transport water as far, you save energy, the cost of infrastructure and all of these things, and wear and tear on your existing infrastructure. It is not just a tiny little retail margin, saving them a few pounds. They can save a lot of money on administration, but we can enhance the service. We can drill them a borehole, where appropriate, and they then get water more directly and securely, it is cheaper and it is better for the environment. We can help them to treat their effluent, which is like having a mini sewage works on site, which might be appropriate for a large industrial user. We can clean it up there, again, putting less wear and tear on the infrastructure, so everyone gets the benefit in that way. It also has environmental advantages.

[113] So, the point that I would make to the committee is not just to look at the tiny margins. They are significant—every little helps and every penny that you can save is all to the good; we are not minimising that—but our point is that the advantages of innovation, such as that undertaken by Severn Trent Costain, and retail generally, are much broader than that. They give a different mindset, asking ‘How can I help my client save water? I can develop these ways et cetera.’ Everyone benefits from that. That would be our point.

[114] **William Powell:** On this specific point, Vaughan Gething and Llyr Huws Gruffydd have indicated that they have questions.

[115] **Vaughan Gething:** I am interested in the point that you have just raised about potentially having a customer with a multi-site business across the UK that may want one water provider. However, on the point that you just raised about drilling a borehole or having an effluent treatment plant on site, what scale of employer are you talking about to make that possible? You have an infrastructure cost associated with going in to create that infrastructure—to drill the borehole, to create the pipes and to deliver the water that they will need. Corus is a good example, as it has operations across the UK, and not just in David Rees’s constituency—

[116] **David Rees:** It is Tata Steel now.

[117] **Vaughan Gething:** I am sorry—it is Tata now.

[118] **Keith Davies:** It is also in Llanelli.

[119] **Vaughan Gething:** I am sorry, Keith; I do not know of all the constituencies where it is based. [*Laughter.*]

[120] **William Powell:** Order.

[121] **Vaughan Gething:** For the sake of argument, Tata has pretty significant industrial sites, but how large an employer are we talking about? Are we talking about really large businesses like that to make it worthwhile? I am interested in how realistic the prospect is of having a borehole, waterworks and effluent treatment, and who owns them. If you own them, is the company not tied in to you?

[122] **Mr Fairburn:** You are absolutely right. The example that I gave would mean that it would be a large user of water—not necessarily a large employer—such as a dairy, a brewery or a drinks manufacturer. There are other things that you can do. The public sector in Scotland is projected to save £25 million in water efficiency alone, so it is not just about single billing and all the administration that goes with that—it is about water efficiency. Developing on-site treatment works et cetera may be an extreme example, and I would have thought that it is not relevant in most cases, but it is about how we can help the client to use water more efficiently, and innovate in that regard. It could be a case of just changing all the taps. All of these things help to enhance efficiency, which helps to reduce the bill for the business customer. This helps with the environment, because you are drawing less water from the environment, and helps to reduce wear and tear on the infrastructure, which is to everyone's benefit.

[123] There will be a hundred other ideas that have not been developed yet, and probably will not be developed until you get the spur of innovation. It is about looking at the broader range of benefits. At Severn Trent, we do not always make ourselves popular because you would not expect water companies that have a monopoly to say 'introduce competition'. There are good reasons why it is not appropriate to introduce competition in some parts of the value chain, but what we are saying is that, on the retail side for non-households, if it can deliver benefits—and the test is: is it good for customers? Is it good for the environment?—why would you not do it? On wholesale competition and water resources, for example, where do we get the raw water from? I was talking to somebody the other day about the owner of the Manchester ship canal—the Peel Group—which has a lot of water that it would like to sell into the system. If you can get water environmentally sustainably and more cheaply from other sources, why would you not do that? I understand that Network Rail spends an awful lot of money pumping water out of tunnels, at a cost. What would happen if it could sell that water and be forced to sell that water to us?

[124] **Vaughan Gething:** On the example that you gave, if you drill a borehole and create a network of pipes for a specific business—let us take Tata as an example—what sort of infrastructure costs are we talking about? What sort of time period do you need as a guarantee that it will continue to take a service from you for you to be able to pay the money back? I appreciate that you are not going to say 'We will do this for you and you might disappear in a year, and so what about the network and infrastructure spend'. I am interested in how realistic an example that is.

[125] **Mr Fairburn:** We think that it is realistic. A lot of companies already have their own infrastructure, and we believe that a lot more companies could benefit from that, with somebody working on their behalf to reduce their water bills. More proactive companies, and large users of water, already have these things. We would want to encourage it more when it is to their benefit. So, we, or another retailer, would sit down with them to work it out, saying 'Okay, well we could do this in lots of ways: you can pay for the infrastructure up front or we could charge you on an annual basis or a monthly basis'. There are a million different ways of doing it. It is one of the things that we would want to encourage businesses, the public sector and others to do. There is no one-size-fits-all. The problem that we have often faced is: this is what you get, it works for us and we like it; we want to move away from that.

[126] **Vaughan Gething:** Is that competition possible already for large businesses?

[127] **Mr Fairburn:** Businesses that use more than 30 ML are open to that competition. Uptake is very small, because we do not think that the market is mature. We think that removing the threshold for non-household competition, so that any public sector organisation, charity or business can make use of that, will stimulate the market. We think that there is a little bit of competition to be had and a better deal for customers on pricing, but I accept that the overall numbers are small. We think that the big changer, and what will drive and change behaviour, is innovation and service quality and by saying, 'I am your retailer now; I do not just have my big network behind me to sell you as much water as I can; I am going to be incentivised on helping you reduce your water consumption'. It is a completely different mindset and a completely different way of doing things, and we are up for the challenge. That is why we support this change.

[128] **David Rees:** Other colleagues will ask about competition, but you have raised the issue. You have talked about innovation on usage and efficiency; I totally agree, and see that on a wider basis. However, companies can do that now, without opening this up to the competitive market. If they are really are charged per water usage, they will be looking at effective usage of water, so they do not necessarily need the changes that you are talking about.

[129] **Mr Fairburn:** First of all, not all companies can do it now; you have to be a relatively large user to do it. The threshold was 50 ML and it has now been reduced to 5 ML, but it still excludes a lot of people. You have single billing throughout the country as well. In theory, you can make it work now, but it is an immature market and it has not taken off. This is relatively simple; we are not asking for revolutionary change. It has happened in Scotland since 2008. With a relatively simple change—if it were UK-wide, there would be advantages and Scotland would certainly claim that it has got advantages out of opening up the market—we believe that the same advantages could apply in England and Wales. So, it is a question of degree.

10.45 a.m.

[130] However, I also want to make the point that it is not just about retail competition—I have explained why we support retail competition. Water resources relate to the example of the ship canal: who has water, who can sell it? If it is better environmentally and it reduces customers' bills, why would you not do that? We want more market there.

[131] Another part of the value chain, as we call it, is sewage sludge. We generate 25% of our own energy using anaerobic digestion, and water companies use a lot of energy because water is heavy and pumping it around requires a lot of energy. We have other sources, but basically 25% of our energy is generated by anaerobic digestion. Basically, we take sewage sludge and turn it into gas and electricity. If there were a market for that and if that area of the value chain were opened up, it would be beneficial. Again, it is not revolutionary and it will not spook the people who protest about it. We are not asking for revolutionary change, because we also have investments, but by opening up that market, you can stimulate efficient allocation and more use of anaerobic digestion. There are lots of things that you can do in that area.

[132] What would be the benefit of that? First, there would be environmental benefit, in that the more green energy that you can generate at a cost-effective price, the better; secondly, it would help to keep our customers' bills down. One of our biggest costs is energy, but if we can use sewage to generate energy, why would we not do that? So, I am talking about things like that. The point that I would make is that I would encourage people not to think in terms

of it either being competition or no competition; it is either supermarket or monopoly. We are asking people to look at what the water industry does—look at the bits of the jigsaw puzzle—and consider where in that picture or value chain is it appropriate to introduce competition. The test has to be: is it good for the customers and is it good for the environment? We believe that, in some of those parts, the answer is clearly ‘yes’, and that is why we support it.

[133] **David Rees:** You mentioned innovation in relation to sewage sludge and effluent, but you and others are doing this now because, as you say, if nothing else, you want to reduce your own costs as a consequence of that, which is an important aspect. However, you have highlighted that the thrust of any competition will be more in terms of the supply of untreated water rather than of the end user.

[134] **Mr Fairburn:** The three areas that I would cite, not necessarily in order of importance but in order of process, would be: raw water resources, retail competition and sewage sludge. There may also be other areas. I am just saying that we, in the water companies, have to earn a living like anyone else and we should not be especially protected. We should be open-minded about competition and that is not because we are ideological. The self-interest of the water companies would be to say, ‘No, thanks’, but we are saying that we should set two tests—is it good for customers and for the environment?—and we should not think that it is binary, for example, that it is all competition or no competition and we should look at the value chain. People could say, ‘You could do this now’, but we would argue that, in practice, you could not, because in a heavily regulated sector, there are so many controls.

[135] However, if you take anaerobic digestion, the point about a market there is that, if we were no good at anaerobic digestion—and we like to think that we are pretty good at doing anaerobic digestion—and someone could do it more efficiently than us and, hence, get better results, why would we not trade with them? You then get more energy and at a lower price. That is all that we are saying. So, why could it not be the same with water resources? Someone might be a fantastic retailer, for example, and they might have the most innovative ways of helping to reduce water consumption and have fantastic customer services, but someone else might be very good at something else in the value chain. Why would you not let them trade? Why would you not introduce a bit of rounding off? We are not asking for revolutionary change, but for evolutionary change, when it is good for the customers and good for the environment.

[136] **William Powell:** It is probably worth clarifying that currently the thresholds here in Wales are 50 ML per site for a non-domestic customer in terms of enabling them to choose their supplier, whereas in England, as you have correctly said, it is just 5 ML; there is a significant difference there, of which we, as a committee, need to be aware. I turn to Llyr for the next question and thank him for his patience.

[137] **Llyr Huws Gruffydd:** Diolch yn fawr, Gadeirydd. Hoffwn ddod yn ôl at fforddiadwyedd. Gwnaethoch grybwyll yn gynharach y gwaith yr ydych yn ei wneud gyda Citizens Advice, ac rydych hefyd wedi cyfeirio at Water Direct, y Severn Trent Trust Fund a'r cynlluniau eraill sydd gennych. O gadw mewn cof y sefyllfa economaidd yr ydym ynddi, lle mae mwy a mwy o bobl yn ffeindio eu hunain yn cael trafferth i dalu biliau ac yn y blaen, ac angen cymryd mantais o gynlluniau o'r fath, hoffwn glywed gennych am allu'r cwmni i fedru ymateb i'r galw ychwanegol hwn, a sut mae hynny'n

Llyr Huws Gruffydd: Thank you very much, Chair. I want to return to the issue of affordability. You mentioned earlier the work that you do with Citizens Advice, and you also referred to Water Direct, the Severn Trent Trust Fund and the other schemes that you have. Bearing in mind the economic situation in which we find ourselves, where more and more people are finding themselves in difficulties in terms of paying their bills and so on, and needing to take advantage of such schemes, I would like to hear about the company's ability to respond to that additional demand, and how that will then

mynd i effeithio ar filiau rhai o'ch impact on the bills of some of your other
cwsmeriaid eraill. customers.

[138] **Mr Fairburn:** Every penny that we spend to help customers in need ultimately comes from other customers. We have to use that money smartly. Our general approach is that we ask our customers how much we should cross-subsidise. I understand why some people say that we should not cross-subsidise too much. Our customers tell us that they are content with a rate of 1%. They also tell us not to help a lot of people a little, but to help a few people a lot. Do you then say, 'Well, customers would say that, but there is a bigger picture', or do you say, 'You should listen to your customers'? It is difficult; we are not elected. In a political debate, it is quite proper that you could say, for good or bad, 'We are going to tax these people and spend it there', or vice versa. There is a mandate to do that in the democratic process, and that is legitimate; if people do not like it, they can vote differently. However, we are not like that. People pay our bills, so the point that I am trying to make—in a cack-handed way, perhaps—is that, as water companies, we find it difficult and uncomfortable to veer into social policy, for the reasons that I have given. We deal with that by listening to our customers, and we try to follow what they say; our view is that that is the appropriate way of dealing with the issue.

[139] The next point that we make is that the No. 1 thing that we can do to help all customers is to keep people's bills down. In Wales generally, I think that 14% of people are in what you could call water poverty, which means that they are spending more than 5% of their disposable income on water. In England and Wales as a whole, the figure is around 10%. However, the point that I am trying to make is that if you reduce somebody's bill by £100, you exclude a lot of people from water poverty—it makes a big difference. Our focus is to reduce people's bills. We are very proud to have the lowest bills, and we are going to do our utmost to keep it that way.

[140] It also means that the support that you provide has to be super-targeted. This includes all of the schemes that you would expect—water meters, different tariffs and so on. If a water meter costs a customer more, we can switch back to the old system. We do all that you would expect, but we believe that even if you gave somebody £100 or £200 for their water bills, it would be very welcome, but the chances are that it would not be a game-changer in their lives, in our experience. If you can work with people through the citizens advice bureaux—I think that it is really important that it is done through a third party, and that it is not us who are giving financial advice—you can, hopefully, help them with their water bills as well as helping them more broadly.

[141] I will just flag up another thing that we do, which is to try to get people to help themselves. We have a trust fund, which is run independently, that provides grants for people who are really struggling. The general way that the fund works is that a person is in arrears—of £500 or £1,000, for example—and it is suggested that they pay £5 a month for the next six months to show us that they can get back into the habit of paying, that they are trying to get a hold of their finances and that they are doing their bit. After six months of making regular payments, we can then make a grant to put them on the right footing. We try to be very frugal or responsible with people's money, because it is not our money; it is our customers' money. We try to make it focused and we try to try new ways. There is no perfect answer and we are always looking around to see what other water companies are doing. If something is a good idea, we will try to take that. We try to think of the best way of helping people within the limited resources that we have.

[142] **Llyr Huws Gruffydd:** Rwy'n credu **Llyr Huws Gruffydd:** I think that your bod eich sylwadau cynharach yn adlewyrchu earlier comments highlight some of the rhai o'r gwahaniaethau diwylliannol neu'r cultural or mindset differences that exist *mindset* gwahanol sydd rhwng corff nad yw'n between a not for profit body, such as the one

gwneud er elw, fel yr un y clywsom wrtho yn gynharach, a chwmni sydd â ffocws mwy sector preifat. Dywedoch nad ydych yn etholedig, sy'n iawn, ond mae Llywodraeth Cymru yn etholedig ac mae wedi cyhoeddi canllawiau ar dariffau cymdeithasol. Beth yw eich ymateb i'r canllawiau hynny? Beth ydych yn gweld sy'n bositif ynddynt, ac a oes agweddau mwy negyddol?

that we heard from earlier, and a company that has more of a private sector focus. You said that you are unelected, which is true, but, the Welsh Government is elected and has issued guidance on social tariffs. What is your response to that guidance? What do you see as positive in that guidance and what are the more negative aspects?

[143] **Mr Fairburn:** You get a range of different ownership structures in the UK: Scottish Water is publicly owned; Welsh Water is a mutual; we are a listed company; and there are also companies owned by private equity. There is a whole range. Instinctively, I would say that a range is a good thing, because you get a variety and you can seek the best bits and compare and contrast. Instinctively, that feels right, but that is a separate point.

[144] With regard to the social tariffs guidance, as we are mainly in England—although we have 30,000 domestic customers and around 5,000 businesses customers in mid Wales—we are guided by English social tariff guidance, but we are fully aware of the Welsh one. We think that it is about right. The point we would make is that what is right in one area might not be right in another, so there has to be some flexibility. The point we will keep returning to is that our guide has to be our customers. Whether you are a mutual, a listed company or owned privately, it should not affect that. A good organisation is always going to be driven by its customers. When we are doing these things, we spend an awful lot of time listening to our customers—those in need and those who are not—and trying to come up with innovative solutions. The test is not how you are owned or anything else, but how you help people. We are not a perfect company, we do not always get things right, but we do have the lowest bills and we try to come up with innovative ways of helping people. To me, that is the test.

[145] **William Powell:** Earlier, you referred to sharing good practice and looking out for good practice in other companies. Have you given any consideration to working directly with registered social landlords in Wales—I am thinking in particular of Mid Wales Housing Association, since its area of activity tends to be more or less coterminous with your own area of activity in Wales—in terms of sharing billing arrangements, potentially to the benefit of tenants in that sector?

[146] **Mr Fairburn:** Absolutely. We are always open to new ideas. I scribbled down some ideas earlier when listening to Welsh Water. That point is timely. We are currently reviewing what we will do and how we will run things in 2015 to 2020 as part of the price review that is being carried out at the moment. On working with social landlords, working with anybody else, partnership working and getting the best ideas so that we can get the best possible service for our customers, all those things are timely. The short answer to your question is 'yes'. We will look at opportunities to work with social landlords and others.

[147] **Russell George:** You heard the evidence from the first witness this morning and I want to ask you about metering. What percentage of your domestic customers are on meters? Is metering something that you encourage and what are the costs associated with it?

[148] **Mr Fairburn:** About a third of our customers are on metering, so we have one of the lowest, if not the lowest, take-up of meters. We also have the lowest per capita consumption. Our view on metering is that it may be appropriate for some areas: if you are in an area where the geography means that you are in drought a lot, there may be a case for metering.

11.00 a.m.

[149] The question that we would ask about metering is: what are you trying to achieve? Are you trying to achieve lower prices? Meters cost £300 to buy and fit, which is nice for water companies—if I was Tesco and somebody had to buy my product for £300, I would be quite happy; it is the same for water companies. What are you trying to do? If it is to reduce prices, I am not convinced that it is the best way forward, certainly not in our area, given our geography and environmental conditions. If it is to reduce consumption, it comes back to this point: we have one of the lowest, if not the lowest, uptake of meters, which is about a third, yet we have the lowest per capita consumption. Our consumption is about 127 litres per person per day. The UK average is about 150 litres. Germany is about the same as us. In Melbourne, Australia, where they have drought, it is about 80 litres, which is certainly significantly better.

[150] How can we, in Severn Trent, have the lowest consumption per capita and have one of the lowest levels metering? We think that it is about lots of things. It is partly because of the nature of the area and whether you have a lot of agriculture and so on. However, we think that a large part of it is education and working with schools. We have a huge schools programme where we work with children and talk about pester power, turning the tap off when cleaning your teeth and all those things. If you scaled up how much it cost to fit a meter, which is £300 or £50 a year, or however you want to you measure it, so that you covered the whole of Wales or the UK, that would give us a big pot of money—£2 billion, £3 billion or £4 billion or whatever the sums would be to supply everybody with a meter—and I suspect that you could get a lot more bang for your buck if you went to schools and worked on educational programmes et cetera. We would not rule it out if you were in drought or if there are special circumstances, but, as a general principle, if metering is to reduce consumption, we have not seen the evidence on that. If it is to reduce prices, that will not work for the reasons that we are saying. We give meters, and all new houses are built with meters. If people want to a meter, we will provide it for them. If they do not want it after a year because it has pushed up their bill, we will take it off them. Meters are not the silver bullet.

[151] **Russell George:** Did you say that all new houses are built with meters?

[152] **Mr Fairburn:** Yes, since 1999, I think.

[153] **Russell George:** Right. So, do you give all customers a choice whether to have a meter?

[154] **Mr Fairburn:** Yes. Like Welsh Water, if a customer came to us and said, ‘I want a meter because it is good for me’ or ‘I’m not sure if it’s good for me, but I want a meter for a year to try and then I can get rid of it or keep it’, we of course would do that.

[155] **Russell George:** So, all your domestic customers who are currently on a meter could say, ‘We no longer want a meter’.

[156] **Mr Fairburn:** It is a year’s trial.

[157] **Russell George:** If they already have a meter going back for decades, they can say, ‘We no longer want a meter’.

[158] **Mr Fairburn:** I do not believe that that is the case, but I can write to you to confirm. I believe that if you have a meter in your house, you are with a meter. If you have asked for it to be put in and it has been in for less than a year, you can have it taken away.

[159] **Russell George:** So, customers do not have a complete choice of whether they have a meter, because some would have to have a meter.

- [160] **Mr Fairburn:** That is my understanding, but if I am wrong, I will write to you.
- [161] **Russell George:** What about the cost associated with the meter for the customer?
- [162] **Mr Fairburn:** The meter costs, so that money has to be recovered in some way, so it pushes up—
- [163] **Russell George:** How do you recover the money?
- [164] **Mr Fairburn:** We recover the money through standard tariffs agreed with the regulator. I would encourage you to look at the big picture. Meters cost money, and there are many complicated tariffs that are agreed with the regulator, and it keeps a lot of people in work, working them all out, trying to balance them and making them fit. It is an industry. The big picture is that I suspect that meters can help to marginally reduce consumption at first. Then, that trails off because are people really not going to have a shower because it will cost them 2p in water? I do not think that it is at the forefront of the mind of many people, especially if they pay by direct debit et cetera. I believe that there is some research showing that if people have to pay their bills regularly, and not on direct debit, they are then more conscious of the cost and are more likely to be economical with the water that they use; so, it is not so much a meter thing, but a constant reminder thing. Meters cost money. I would suspect that, in some places, they might be appropriate, but most of the time there is a more efficient way of helping customers to reduce their own consumption: fitting water efficient taps and shower heads and changing the flushes on toilets can all make a very significant, easy difference, which can make the cost a lot cheaper.
- [165] **William Powell:** I have one final question. Could you share your views on the recent Welsh Government submission to the Silk commission in terms of the Assembly's aspiration for legislative competence extending up to the geographical border with England, where you operate, and on what impact you think that that would have on Severn Trent Water's customers?
- [166] **Mr Fairburn:** The constitutional settlement is an issue for the democratic process and we are a water company and would not want to trespass in that area. So, that is the big-picture caveat. From an operational point of view, and purely from that of a water company serving England and Wales, if it were to lead to two different regulatory regimes in England and Wales, then that would push up costs. It would mean having two different compliance teams, regulation teams et cetera. We have 30,000 domestic customers in Wales. Their bills are about £100 cheaper than they are elsewhere. It would not have to push up prices overall, because you have two compliance teams, two regulation teams and all that in order to make a big dent in the reduced bill that they get. So, there will be broader issues for others to discuss, but purely from the operational perspective of the water industry, as a company that operates across the border, a single regulatory regime is obviously cheaper and easier and hence our customers' bills, particularly in Wales, are lower.
- [167] **William Powell:** How would your company go about communicating that if there were to be an increase in cost?
- [168] **Mr Fairburn:** I do not know. We would have to look at it. Our general principle is to be as open and as transparent as we can. We do not have an axe to grind either way. Being as straight as we possibly can be and saying, if there are changes, 'These are the reasons why and this is what it means for you'. We just want to play it very straight.
- [169] **David Rees:** We have not touched on this, but out of curiosity, if the Bill goes through and opens up the competition, do you believe, as Severn Trent Water, that it will have an impact on investor confidence in utility companies, or that it will strengthen it?

[170] **Mr Fairburn:** If you ask a monopoly whether it wants change—

[171] **David Rees:** That is not what I am asking.

[172] **Mr Fairburn:** No, but by and large, it will say ‘no’. We borrow. We are one of the biggest water companies and the significance of that is that we have to borrow more money than most. We are very tied into our investors, because we are a listed company. We talk to our shareholders, both big and small—a lot of them are very small retail shareholders—all the time. We do not believe that there will be a great shock. I will give you two bits of practical evidence. The first is that, love or hate them, one of the biggest credit rating companies, Moody’s, has issued a statement saying that it does not believe that retail competition is a big deal in terms of investment. It is about the broader methodology, but one of its points is that it does not believe that retail competition is a big deal, in terms of spooking the markets. However, that is all theoretical and you can argue whether or not it will spook the markets. Could you find an investor that says, ‘This is outrageous; I don’t want change’? If you look at water companies in Northumbria and Surrey, and at water companies that have been sold since changes have been mooted, you will see that they are selling at 30%, possibly 40% premiums, for their regulated value. The changes are all out there. You might get a slightly different mix of investors sometimes, but the general proposition of investing in the water industry, we think, is solid. Moreover, Ofwat is as aware as anyone else that if you push up the cost of capital, that is, having to pay people more to invest in you, you will push up customers’ prices. Listening to our investors, we do not buy it, within reason. It comes back to the point about supermarket competition with all things up for grabs. You could have two pipes down one street, you could strand assets et cetera, or you have no competition. That is not the choice. It is essentially between no competition and competition where it is appropriate. If you only introduce competition where it is appropriate—and that takes us back to my three examples of retail, sewage sludge and water resources—we do not think that investors will have any problems with investment.

[173] **William Powell:** Okay. Thank you for joining us this morning and for fielding a very wide range of questions and answering them.

[174] **Mick Antoniw:** Chair, is it possible just to ask one final question?

[175] **William Powell:** I think that it would be churlish not to give you that opportunity.

[176] **Mick Antoniw:** Every other utility privatisation competition that has been introduced has, quite frankly, turned into a long-term disaster. Why should water be any different?

[177] **Mr Fairburn:** The water industry is privatised—

[178] **Mick Antoniw:** That is right, but the extension of that monopoly into competition—

[179] **Mr Fairburn:** I think that it is very hard to compare. First, you open up loads of judgments about how the industries, whether telecoms or energy, are doing and whether they are better privatised or not; and that is a debate that I would probably want to stay out of. [*Laughter.*] I am very happy to debate it, but it is probably slightly beyond my remit. The point is that the water industry is privatised. Most of the water industry is a private monopoly. Some is a mutual monopoly; some is a public sector monopoly. However, most of it is a private monopoly. If you introduced a bit of competition in those areas to get a better deal for customers and a better deal for the environment, I just do not see why you would not do that, from the perspective of the interests of the environment and customers. I would keep referring back to the examples: you can enhance efficiency and sustainability on water resources; you can do it on sewage sludge and the by-products; you can drive innovation; and you can get a

better deal for customers. There are all of those things. It is a funny world where I represent a water company and I am saying, 'Introduce a bit of competition'—

[180] **Mick Antoniw:** Is the real interest, though, not—[*Inaudible.*]—friend who is supportive of this is because it secures and enables you to expand market share, which, ultimately, is for the benefit of your shareholders?

[181] **Mr Fairburn:** That would only be true—and I am not hiding from that—if we could provide people with a better service, however they measure that. If we can give people a better deal, then there are opportunities there. If we think that we cannot give people a better deal, then we would be mad to be taking the position that we are taking.

[182] **Mick Antoniw:** Thank you for lenience, Chair.

[183] **William Powell:** Thank you for catching those final grenades. [*Laughter.*]

[184] Again, thank you very much for coming along and for contributing so fully to our short inquiry. If we have any further issues, we will be in touch. You have made commitments to be in touch with us on a couple of issues; so, we look forward very much to hearing from you.

[185] Mae'n amser paned nawr. It is coffee time now.

[186] We will take a 10-minute break. We look forward to seeing everyone back at 11.25 a.m. Thank you.

*Gohiriwyd y cyfarfod rhwng 11.14 a.m. ac 11.28 a.m.
The meeting adjourned between 11.14 a.m. and 11.28 a.m.*

Polisi Dŵr yng Nghymru—Tystiolaeth gan y Cyngor Defnyddwyr Dŵr Water Policy in Wales—Evidence from Consumer Council for Water

[187] **William Powell:** Bore da. It is good to welcome Diane McCrea, chair of the Wales committee of the Consumer Council for Water, and Tony Smith, chief executive, who have joined us this morning. This is an important contribution to our short inquiry into water policy. Thank you very much for the submission that you have given, which we have had the opportunity to read in advance of the meeting. I wonder whether one or both of you would like to make an opening statement to put things into context, and then we will kick off with some questions that Members have for you.

[188] **Ms McCrea:** Bore da. First of all, thank you for inviting us. As the statutory independent consumer body for water and sewerage customers across England and Wales, we are delighted to be able to present to you. We feel that this is an important inquiry for the committee, and as the consumers' representative body, we look at things through different eyes from those who have presented to you beforehand, namely from consumers' perspective. We are an evidence-based body. We formulate our policy on what customers tell us matters to them. We deal with customers' complaints where they have not been resolved by the water companies and we look at the bigger picture across England and Wales. My job as the board member for Wales is to protect the interests of customers in Wales, but also to look at the differences across England and Wales, to see where there might be advantage or disadvantage in that respect.

11.30 a.m.

[189] Issues for customers in Wales at the moment include value for money for their bill and getting good service. When I say ‘customers’, I mean business, non-household customers as well as domestic customers. There are big issues. Obviously, the sustainability of the water industry for the future is very important, and increases in bills are not welcomed at this time, as you would imagine, for customers in Wales, be they business or domestic customers.

[190] Instead of me going on, we will address your questions.

[191] **William Powell:** I am very happy to lead off. In your written evidence, you comment that the company should be given additional powers to help to minimise debt and to assist customers in their wider financial management. I wonder whether you could speak briefly to that particular important point.

[192] **Ms McCrea:** Yes, you have heard that it is very important that companies get the money in from all of us—we are all required to pay our bills. However, some people find it very difficult to pay their bills, and others do not pay their bill, and they cannot be cut off. We work with the water companies to encourage best practice in debt management, and we look at what all the companies do in England and Wales, and particularly my group of consumer advocates will be working with the company, looking at its debt procedures. There is one group of customers with significant debt, and it is difficult for the companies to collect that. This is something that was addressed in the Flood and Water Management Act 2010, where those people who are tenants might abscond at the end and not pay their bill. There is a provision, and we hope that the Welsh Government will be consulting on it, on how to deliver better debt-chasing from either tenants who have absconded or from the landlords who would be responsible. There is a loophole there. That is one area that could help significantly and it is something that we are keen to pursue, because we know that the Welsh Government signalled that it would look at introducing this on a compulsory, statutory basis, so that the water company could pursue those debts that are outstanding. That is one example.

[193] **Mr Smith:** I would just like to add that what could work is that owners or landlords would be required to give the water companies information about who occupied those properties and, if they did not do that, then the bill would be liable to them, because, as Diane said, when we do customer research, we find that a large percentage of customers who are in debt are people who are living in those sorts of properties. Many of the companies—not just in Wales, but in England as well—report that large percentages of their customers who they have trouble getting debt from are in those circumstances. They are also supportive of that proposal.

[194] **Ms McCrea:** There are quite a few quirks in the regulations, and one is that it is not a legal requirement to register with the water company. It is for electricity, when you change supplier or move into a property—it is a requirement that you register with the electricity company, but, as I understand it, you do not have to declare who the bill payer will be.

[195] **William Powell:** So, it might well be useful for that anomaly to be addressed.

[196] **Ms McCrea:** Yes. For example, where that plays in, if you like, is that it is not always clear who is entitled to benefits within a household. Water companies do not know what the Government knows—that is, who are the most vulnerable and those who would be living on benefits. They would not have that information. Dŵr Cymru earlier talked about one of the schemes where it had given an incentive for people to give that information, but improving information between Government and water companies could help customers, and those might be the customers who are on benefits and who do not claim all that they are entitled to.

[197] **William Powell:** It could be similar for RSLs, to give another example. Obviously,

RSLs with their various teams will have a good overall steer about that.

[198] **Ms McCrea:** We have seen that in a particular scheme operating in Valleys to Coast Housing areas, where there is a very good tie-up with the water company through the collection mechanism that is agreed in those areas.

[199] **William Powell:** What are your views on the social tariff guidance that was issued on 1 March by Welsh Government?

[200] **Ms McCrea:** We welcome the social tariff guidance. This is one piece of legislation, or one chain, if you like, in the whole range of options that could help customers. The fact that the proposal in Wales is to set a cap of 2.5%, which is more than in England, is to be welcomed. As a consumer body that looks at consumer evidence, we would also support the principle that this has to be looked at and judged in the context of what the whole customer range is prepared to pay. So, we would say that there needs to be broad customer support. However, we are also conscious that if there is broad customer support, our research says that that will not address the affordability gap. Customers tell us that they would prefer to have support through taxation and for it to be delivered through benefits. That has always been our policy.

[201] **Mr Smith:** We have done a lot of research about the customer's level of acceptance for social tariffs. Customers start with the view that it is essentially the Government's job to help with all types of affordability, not just water debt. They are prepared to play their part, though—customers are willing to pay some towards it, particularly if they can see evidence of Government and water companies playing their part. So, there is a sense of 'I will if you will'. However, there are limits on what customers are prepared to pay. The research that we have done suggests that it varies depending on what the customers think, but it is roughly £2 to £4. If you think about England and Wales, where there are maybe 20 million customers, that suggests that there could be £40 million-worth of value in a social tariff.

[202] It is quite hard to establish what the affordability problem is in water, but various people have had a go at that, including Anna Walker. The number seems to be somewhere between £300 million and £400 million, which represents the scale of the water affordability problem in England and Wales. The problem with social tariffs is that they will make a contribution to the problem at £40 million, but they clearly will not address the full £400 million-problem. So, there is still work to be done there. One of the issues for the water companies on social tariffs is to get one of two things: agreement from their customers that the customers themselves are prepared to pay for these cross-subsidies, or support from Government to say that it is appropriate that the company should collect money from other customers. The Welsh Government's support is very important in order to give the company legitimacy in forcing other customers to pay for social tariffs.

[203] **William Powell:** You have anticipated my final question, which was around additional funding coming forward to address this issue.

[204] **Mr Smith:** That is about the scale of the problem. We have taken the view that, ideally—and I think that water customers would support this—the Government should be playing a part in it. You might be aware that, in the south-west of England, the Government in Westminster is making a £50 contribution towards domestic customers' bills because of the scale of the bills—they are the highest in England and Wales, and they are significantly higher than in Wales. That is a very interesting proposal. It is the first time that Government has done that, and it is bringing Government money to help address the issue of affordability, which we think is a good thing. As to whether it should happen in other areas such as Wales, we would certainly support that.

[205] **Llyr Huws Gruffydd:** Mae'r cwestiwn roeddwn yn mynd i'w ofyn newydd gael ei wyntyllu. Yr unig bwynt ychwanegol yw bod dŵr yn wahanol. Onid ydych yn teimlo bod elfennau moesol ac egwyddorol yn perthyn i'r disgwyliad bod pobl sydd mewn sefyllfa i fedru talu mwy yn talu mwy? A yw gosod cap o 2.5% yn rhy gyfyng, achos ni fydd pobl byth yn dweud eu bod nhw'n barod i dalu mwy, ac efallai fod angen i'r Llywodraeth fod yn fwy parod i adael i'r *cross-subsidy* hwnnw i ddigwydd?

Llyr Huws Gruffydd: The question that I was going to ask has been asked. The only other point that I would make is that water is different. Do you not feel that there are moral and principled elements associated with the expectation that people who are in a position to pay more should pay more? Is setting a cap of 2.5% too restrictive, because people are never going to say that they are willing to pay more, and the Government perhaps needs to be more willing to allow that cross-subsidy to happen?

[206] **Ms McCrea:** That is an interesting question. Clearly, that level of support is not going to address the problem, but this is where we would step back from saying that it ought to be higher, because we think it is the democratic accountability of Government to put the social policy in place. Already, social tariffs are putting some social responsibility and social policy from the Government onto water companies to deliver the social tariffs, but if higher levels are required, then it really is the responsibility of the Welsh Government to set what its expectations would be, given its democratic mandate.

[207] **Mr Smith:** I think that is very important because, as I said, the customer research we have done certainly shows real limits on the customers' level of acceptability. We have to think of a situation where a customer might phone a water company and ask, 'On what basis are you charging me to help somebody else out?'; there is that view around. At that point, the company needs the ability to be able to legitimise that decision. As I say, I think it comes from one of two sources: either they get a large percentage of customers who support the proposal, or the Government mandates it. It is really important that they have one or the other.

[208] **Llyr Huws Gruffydd:** Diolch am hynny. A oes agweddau eraill ar ganllawiau'r tariff cymdeithasol gan Lywodraeth Cymru rydych yn teimlo sy'n bositif, neu a oes rhai pethau sydd ddim mor bositif?

Llyr Huws Gruffydd: Thank you for that. Are there any other aspects of the guidance on social tariffs issued by the Welsh Government that you feel are positive, or are there things that are not as positive?

[209] **Mr Smith:** The thing we really like is the fact that it does take account of customers' views, which is very important, and of the role of the Consumer Council for Water to help in that process. I heard from the public gallery earlier a water company representative saying that the regulatory system had previously constrained the company's ability to issue social tariffs, inappropriately we think. So, the guidance is very helpful in that regard, in suggesting what the company can do, and, therefore, it facilitates more social tariffs, which is what customers in Wales, and indeed in England, need.

[210] **Ms McCrea:** There is one point that I would add to that, which is to note Dŵr Cymru's comments earlier that it supports almost 50,000 people with some sort of tariff now. We welcome the guidance. We have been anxious to see it; we want to see it in place and we want to see the situation in Wales being delivered alongside what is happening in England. However, we would not want it to be brought in before it is quite clear how the people currently on a tariff are protected as we move towards new tariffs. So, anyone who is on Welsh Water Assist should not suddenly be denied that tariff as new tariffs are being evolved. We have been very cautious about the introduction, even though we are keen to see social tariffs introduced, so that the transition addresses vulnerable customers—the winners and losers—and we get the right answer in the long term, because this has been a long time coming.

[211] **Keith Davies:** Rydych yn sôn yn eich papur eich bod yn gweld y biliau yn cynyddu o £160 miliwn i £450 miliwn, ac y bydd y tariff cymdeithasol hwn ddim ond yn cyfrannu rhywbeth fel £40 miliwn. Mae hynny'n her ofnadwy. O ble y cewch chi eich ffigurau?

Keith Davies: You say in your paper that you see bills increasing from £160 million to £450 million, and the social tariff will only contribute something in the region of £40 million. That is a huge challenge. Where do you get your figures from?

[212] **Mr Smith:** That is what I mentioned earlier. On the data around the scale of the affordability problem, there are different ways of establishing it. One was Anna Walker's report on the issue of affordability, which established one number, which was around £300 million. The way in which we have established it is that there is an often-referred-to measure, which is the number of customers whose water bills account for more than 3% of their disposable income. You can work out an affordability problem using that statistic. If you work it out like that, that again comes to that sort of number: £300 million or £400 million.

11.45 a.m.

[213] So, that suggests that the scale of the water affordability problems is that order of magnitude. As I said earlier, it is hard to see how social tariffs can get anywhere near what is probably a tenth of that amount of money. So, that means that, although social tariffs will make a big contribution—we are certainly not decrying them; absolutely not, we welcome them—it still leaves a significant affordability gap in Wales and in England.

[214] **Keith Davies:** Yn eich papurau chi, defnyddiwyd y ffigur o 3% ond, yn un o'r papurau a gawsom, roedd sôn am bobl yn gwario 5% o'u hincwm ar ddŵr.

Keith Davies: In your papers, you used the figure of 3%, but, in one of the papers that we received, there was mention of people spending 5% of their income on water.

[215] **Mr Smith:** That is yet another measure that you can use. It depends on what level you set it at as to how many customers fall into that category. There is a lot of debate as to whether 3% or 5% is the appropriate measure, but it is one that is commonly used to measure water affordability and, indeed, energy affordability. However, whichever way you cut it, this is a sizeable problem and it is likely to get worse in the future.

[216] **David Rees:** On that point, the water companies' papers used a 5% figure rather than a 3% one. What is the standard one that is used?

[217] **Mr Smith:** Do you want to answer that, Diane?

[218] **Ms McCrea:** I do not know the answer.

[219] **Mr Smith:** I do not think that there is a standard one, to be honest. With regard to energy, the 5% number tends to be used. With regard to water, the 3% figure does not have any official credence, but, because water is that much cheaper than energy, the 5% figure excludes more people and so making the measure 3% is probably more realistic. All we are talking about here is water affordability, and the important thing to remember is that the customer who has a water affordability problem also has an energy affordability problem and a general-household-bill affordability problem, so you cannot really divorce those from each other.

[220] **Ms McCrea:** I think that it is unhelpful that there is confusion about it, but the reality is that we know, from the complaints that come to us, and from our research and liaison with the water company, that customers in Wales are struggling to pay their bills and many of them are finding it difficult. The levels of debt are increasing and there can be no doubt that there is

a significant problem and, as the figures would indicate, social tariffs are just one part of addressing that issue.

[221] **Ms Smith:** Just on that point, this is us setting a benchmark, or someone setting a benchmark, at around 3%, but the really important test is to ask customers themselves whether they think that they have a water affordability problem and, today, one in 10 people in Wales think so.

[222] **Llyr Huws Gruffydd:** Sylwais yn eich papur eich bod yn dweud bod yr awydd am gystadleuaeth yn y farchnad annomestig yn gryfach yng Nghymru nag yn Lloegr. A yw hynny i lawr i'r canfyddiad y bydd biliau yn disgyn o ganlyniad i hynny? O feddwl am y sefyllfa a'r pwysau sydd yng Nghymru o safbwynt talu biliau, efallai mai dyna sydd yn gyrru hynny. Pa dystiolaeth sydd gennych ynghylch pam fod yr awydd yn gryfach yng Nghymru? Ni fyddwn wedi disgwyl hynny, a dweud y gwir.

Llyr Huws Gruffydd: I noticed in your paper that you say that the desire for competition in the non-domestic market is stronger in Wales than in England. Is that down to the perception that the bills will fall as a result of that? Thinking of the situation and the pressure in Wales in terms of paying bills, perhaps that is the driver for that. What evidence do you have on why the desire is stronger in Wales? I would not have expected that, to be honest.

[223] **Mr Smith:** I agree that that is a surprise. The general point here, I think, is that business customers generally want choice. They compare water somewhat unfavourably with other things they buy, such as energy, because they do not have a choice. The level of interest in competition is greater among the bigger business customers. For small and medium-sized enterprises, it is still sizeable at around 60%, and only when you get down to domestic customers does the interest in competition completely wane. So, although some domestic customers are interested in competition, when they understand how it would probably work, they are very ambivalent about it—maybe 30% of customers still support it, 30% are against it and 30% are unsure. On the reason for the different experiences, and you may be right about the perception issues, one of the things that we found was that one factor that causes customers to be more positive or less positive about competition is their experience in other sectors, particularly energy. So, if they have switched and had a good experience and made a saving, then they tend to be more positive about competition. However, if they have not switched or if they have tried to switch and found it really difficult and have had all sorts of negative experiences, then they are much more negative about competition. That is true of our domestic customers and our business customers. We talk to business customers all the time, as well as dealing with complaints from them, as Diane said. There are lots of issues in the competitive world of competition for energy that are still to be addressed and still frustrate business customers a lot. So, although they support the idea of choice, it is not easy. It is not trouble-free for customers. There are still lots of things to be done.

[224] **Ms McCrea:** There is a slight difference between being interested in the idea of competition and being willing to switch. Customers would be willing to switch if they could see a considerable price reduction. As to whether it would deliver a 10% price reduction for them, the reality of that needs to be tested. We do not know at this stage. There is no evidence that there would be that level of switching. Whether customers' expectations would be realised is an issue to watch out for, which is why this whole process in England needs to be monitored very carefully.

[225] **David Rees:** My experience of switching is that you gain for a couple of months and then they put their prices up and you lose. What we see in the electricity and gas markets is that, when one puts prices up, they all tend to go up. Is it likely that any competition will result in a similar approach in the water industry?

[226] **Mr Smith:** I would hope not. The energy market is pretty complex, because of international gas prices and such things. However, your experience is familiar for customers. We hear from customers, as an aside, about their experience of energy and it is very negative. The issue with regard to competition in water is twofold. On the positive side, if you had retail competition, which is just the bit about billing and so on, business customers would say that at least it puts pressure on the existing companies to improve their service and to provide additional help in saving water and so on. So, I think that they would view that as a positive development. In Scotland, not that many customers have switched, but lots of customers have got a benefit from the fact that the incumbent water company has improved its service dramatically and become much more customer focused. So, that is a significant benefit.

[227] On the other hand, on the more negative side, is Diane's point that some customers would like to see a significant price reduction. When you are talking about retail competition, there is a big debate about what that means in terms of the percentage of the bill, but, at the very most, it would probably be 15% and it could be significantly less than that. For many customers, it would be difficult to achieve their aspirations for price reductions with that amount of margin. So, it could well be that some customers will be disappointed with regard to the availability of discounts.

[228] There is another subset of customers that are quite important, however, and those are the multi-site customers, that is, customers that have sites all over England, Wales, Scotland and Northern Ireland. They may also want price reductions, but, more particularly, they want information about their sites so that they can look at them and see where they are using the most water and see opportunities for savings, and they can have one bill. Those are major attractions for them. So, there are different segments of customers with different requirements. However, those who are looking for a price reduction may well be disappointed with retail competition. The very large customers who use lots of water will probably switch for very small percentage changes, because it is worth a lot of money to them. The very large chemical companies and so on would probably benefit from even a 1% or 2% reduction in price.

[229] **William Powell:** Given some of the important points that you mentioned earlier around affordability, what direct involvement has the Consumer Council for Water had with the Welsh Government in working up the water strategy that is due to be consulted on later in the year?

[230] **Ms McCrea:** We are very pleased to say that we work in close collaboration with the Welsh Government. We provide evidence for the debate and discussions and we have been involved in workshops. There is a lot of development from the bottom up with stakeholders. There is the opportunity in seminars and discussion to be involved in formulating the strategy. It has been a great example—different from what has happened in England—of involving everyone and exploring what the options are and what the benefits would be and coming to the best solution for Wales in terms of developing the strategy. So, we are very pleased with that.

[231] **William Powell:** We would anticipate that you will be playing a full part when it goes out to consultation, then.

[232] **Ms McCrea:** Yes, we will be responding, presenting our evidence again and looking at the options there for customers.

[233] **William Powell:** Finally on affordability, earlier witnesses had a series of questions about metering and its advantages and the perceived difficulties. Do you have anything to add to that discussion?

[234] **Ms McCrea:** It is complicated. It does put costs up. Customers are confused about metering and the benefits that it brings. We give customers information independently on our website with a meter calculator so that they can try to find out how it may work for them. We know that, in Wales, there is a low level of swapping and opting for a meter. We also know that the regulatory framework allows that and, from Ofwat's assessment, there is a fair chunk of people who live alone in high rateable value houses who could save money if they opted for a meter. The more educated, affluent and price-conscious people will probably have done that. However, many people who could benefit from the current regulatory regime have not swapped to a meter. That is a one-off benefit, if you like, because the bills are lower. When you switch, you get a fair chunk back. We have always tried to give information to those customers to say, 'Realistically, have a look at whether you would save money on a meter and, if you are struggling to pay your water bill, as we know many people in Wales are, try it out for the year and see whether it works'. We give that advice. We heard the water company say that it does not promote metering because it is concerned about the overall cost, but we say, within the regulations, certain groups of people would benefit, and, in this current economic climate, they would be silly not to investigate that.

[235] **Mr Smith:** That is talking about optional metering, so customers have a choice. The research that we have done of customers suggests that customers want a choice in this matter. When you move toward compulsory metering, it is a different matter, and a large percentage of customers, probably about a third of customers, would be strongly opposed to it. It is likely to have a big impact in particular on those customers who are in low rateable value, large households. Whereas some customers can benefit, customers in those circumstances—low rateable value, large households—could have a price increase overnight of £200. That is certainly happening in the south east of England, where compulsory metering is going in. So, protecting those customers and a transition is really important. Metering is a reasonably fair way to pay, but you need to be sensitive in the way that you implement it. If you are going to make it compulsory, you have to be very careful.

[236] **Ms McCrea:** One point that has not been made is that all homes built since 2000 are metered, so all new properties are metered. It is the people in older homes in Wales who are generally on the rateable value, which include some of our more deprived communities.

[237] **Llyr Huws Gruffydd:** I just want to check something. Did you say that compulsory metering was going in in south-east England?

[238] **Ms McCrea:** Yes.

[239] **Llyr Huws Gruffydd:** How does that tally with some of the evidence that we have had today that there is no evidence that it saves water in the longer term and leads to cheaper bills?

12.00 p.m.

[240] **Mr Smith:** That is a good point. I think that there was a reference earlier to the Isle of Wight situation that showed that there was a moderate reduction in water consumption. There has not been a compulsory programme since the Isle of Wight, so it is hard to know whether it is sustained or what the effect would be. That is one of the issues. There are three companies doing compulsory metering programmes at the moment and we are working very closely with them to make sure that they are very customer-focused in their implementation, that they are very sensitive in their transition, to which I have just referred, and that they are getting the data that prove whether putting meters in does the job in terms of saving water; it is too early to know that yet. If it does not produce the saving, you have to ask whether it is really worthwhile.

[241] **William Powell:** Y cwestiwn olaf, **William Powell:** The final question comes from David Rees.

[242] **David Rees:** On this metering issue, you have mentioned the different groups that it affects and I agree that there are people in disadvantaged areas who might benefit from it, as a consequence. There are those individuals who live in larger houses and there are those who live in pre-1990 properties who have large families—two different sets of groups. I am interested in your point about the compulsory programme. First, is any consideration given to environmental approaches, such as putting in water butts, when meters are installed, to help people to see how they can efficiently use water? Secondly, do you believe that there should be a method that allows people to transfer back from water meters? For example, if an individual leave his or her house and a larger family moves into it, there are consequences for that larger family.

[243] **Mr Smith:** In answer to your first point: yes, that is one of the things that we have been working on with companies in south-east England. The issue is that you do not just give a customer a meter and, suddenly, they magically save water. The companies are giving all sorts of help to those customers to save water, with affordability and with a transition programme over a long period of time to help them get used to the meter. Part of that is customers' ability to save water, because whether customers have or do not have a meter, they are generally very receptive to saving water, as long as you help them and make it easy for them. So, absolutely; that is a big part of the programme. It is crucial.

[244] On your point about reversing metering, it was mentioned earlier that, if a customer opts for a meter, they have a 12-month grace period in which they can choose to go back. However, it then stops. If the house is then sold and a different family moves in, for whom a meter is disadvantageous, it is tough, at the moment, with legislation as it is. We get complaints about that issue.

[245] **William Powell:** To round off, moving back to the issue of non-domestic customers, what are your views on the statement made by Ofwat, in evidence to this committee, that regulating companies in Wales differently from the regime in England will impose additional costs? What are the difficulties that you anticipate around that?

[246] **Ms McCrea:** That is a worrying statement if it means that customers in Wales will pay more. However, we recognise that there are different Governments and different regimes and that is appropriate. Explaining what the differences are and why there are differences is important, so that customers understand the whole range and the situation where they are being regulated.

[247] **Mr Smith:** Undoubtedly, there will be costs if you start regulating in Wales the retail business for non-domestic customers, if you do not have non-domestic competition. The question is: what is the scale of those costs? It is hard to see how they would be material to the customer's bill, because all they would be is Ofwat's costs to regulate and the company's costs to provide the necessary data. So, it is questionable as to how material they would be. The second issue is that you would hope that, in the way that Ofwat regulated it, it would create some benefits for customers to offset that extra cost. So, I do not think that it is necessarily a big area of concern, but it is certainly one to explore with Ofwat.

[248] **William Powell:** With that in mind, it is something that we need to take up with Ofwat representatives directly when they come to address the committee, which, hopefully, they will do early in the next term, to follow up on their written evidence.

[249] Thank you, both, for your contributions to our short inquiry and for the way in which you have fielded the questions this morning. If there are any further issues that you wish to

share with us, please be in touch with the clerks and we will make sure that that is incorporated. Diolch yn fawr iawn.

[250] **Ms McCrea:** Diolch.

12:05 p.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42(vi) i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order No. 17.42(vi) to Exclude the Public from the
Meeting**

[251] **William Powell:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[252] I see that there is no objection.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth y cyfarfod i ben am 12.05 p.m.
The meeting ended at 12.05 p.m.*