



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

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

Dydd Mercher, 17 Ebrill 2013
Wednesday, 17 April 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 ynnddi. 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
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
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
Antoinette Sandbach	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Keith Mason	Uwch Gyfarwyddwr Cyllid a Rhwydweithiau, Ofwat Senior Director of Finance and Networks, Ofwat
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Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Kevin Davies	Y Gwasanaeth Allgymorth The Outreach Service
Elfyn Henderson	Gwasanaeth Ymchwil Research Service
Catherine Hunt	Clerc Clerk
Mike Lewis	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.31 a.m.
The meeting began at 9.31 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Yr Arglwydd Elis-Thomas:** Bore da a chroeso i gyfarfod pellach o'r Pwyllgor Amgylchedd a Chynaliadwyedd.
Lord Elis-Thomas: Good morning and welcome to another meeting of the Environment and Sustainability Committee.

Polisi Dŵr yng Nghymru—Tystiolaeth Fideo a Gasglwyd gan y Tîm Allgymorth
Water Policy in Wales—Video Evidence Collected by the Outreach Team

[2] **Yr Arglwydd Elis-Thomas:** Rydym yn cychwyn y bore yma gyda defnydd digidol—tystiolaeth fideo a gasglwyd gan y tîm allgymorth o Gomisiwn y Cynulliad. Rwyf yn ddiolchgar iawn i Kevin Davies o'r tîm am fod yma i ateb cwestiynau ynglŷn â'r gwaith a wnaeth y tîm. Rwy'n deall bod cyfweiliadau ar y deunydd clyweledol, gyda
Lord Elis-Thomas: We begin this morning with digital video evidence collected by the Assembly Commission's outreach team. I am very grateful to Kevin Davies from the team for being here to answer questions on the team's work. I understand that there are interviews on the audiovisual material with a number of businesses and public bodies

nifer o fusnesau a chyrrff cyhoeddus yn rhoi eu barn am y gyfundrefn ddŵr bresennol. A ydych eisiau i ni edrych ar y fideo? Beth yw'r ffordd gorau o wneud hyn? Edrychwn ar y fideo'n gyntaf.

giving their opinion of the current water regime. Do you want us to look at the video? What is the best way of doing this? We will look at the video first.

Dangoswyd DVD. Mae'r trawsgrifiad mewn llythrennau italig isod yn drawsgrifiad o'r cyfraniadau llafar ar y DVD.

A DVD was shown. The transcription in italics below is a transcription of the oral contributions on the DVD.

[3] **Alison Pall:** *In principle, I think that there should be a choice available and we should be able to choose which supplier we use.*

[4] **Christopher Lewis:** *I think, in principle, it is—. The principle is similar to other utilities, so I'm not necessarily against that.*

[5] **Nick Oulton:** *I think choice is a good thing. I think when people have monopoly over supplies such as water, then the maintenance and that is not as good, and I think if England is going to have a choice, then Wales should have a choice as well. That is from someone who lives in England but works in Wales. If people in England were allowed to swap and we weren't, we could be financially disadvantaged by that.*

[6] **Will Pierce:** *I have no problem with the concept in principle; I do question how it would work.*

[7] **Buster Grant:** *Yes, absolutely. At the end of the day, it is a free market, hopefully, and therefore competition can only, hopefully, drive up standards and drive up quality. I think any form of deregulation can only be a good thing, so the chance to open up the market should be taken. I think it would be detrimental to Wales as a country not to allow businesses to choose if that legislation is in place. If it is purely a case of opting into existing legislation, we should do it, very much so.*

[8] **Graham Jones:** *There are not enough water companies in the country. There is not enough competition and we could see some of them disappearing. That will reduce competition even more. So, from what we are trying to do—introduce competition—we'd be actually doing the opposite.*

[9] **David Mundow:** *In principle, I am not opposed to it, but I'd be very wary of the idea of having a market in water, because there isn't a national grid for water.*

[10] **Mark Woolfenden:** *As a general principle, in most business services competition has to be, as a principle, a good thing. I think in the case of water supply, there are a huge number of physical and logistical issues that actually make it incredibly difficult.*

[11] **Mark Drew:** *I think competition is healthy. We certainly have competition within the leisure sector within local authority service delivery. The moral issue for us would be that we should be working on behalf of the local public and the local population and trying hard to keep those costs down. So, we'd want the opportunity.*

[12] **Antony Smith:** *I think there is a rationale for saying that monopolies are not healthy, but leaping into something like this is unhealthy as well. I think it has to be a considered view.*

[13] **Will Pierce:** *Welsh Water is a not-for-profit organisation. So, it is not paying*

shareholders dividends. Where are the savings going to come from to make it more competitive? The one thing I would say about Welsh Water is that bills come in on time and, generally, they are pretty accurate. We have very very few problems with Welsh Water. Consequently, why would you want to move away from a system that actually works pretty well?

[14] **Buster Grant:** We are pretty well looked-after by Welsh Water. Certainly, I've had no issues with it during my business life or, indeed, in a personal capacity, either.

[15] **David Mundow:** Welsh Water has started to invest in a bit more customer service, I think, in preparation for this. In the last 18 months, it has established a major business team, so we now have defined contacts for our health board. I think that it is doing similar things for other big customers, like councils.

[16] **Mark Drew:** To be quite honest, I can't complain about the provider. We don't have a problem, so there isn't a problem to fix.

[17] **Will Pierce:** Recently, with Welsh Water's agreement, we've installed some water AMR, so we can now monitor the water consumption in our—well, at the moment, it's in our 10 or 12 biggest sites, and that has revealed quite a large amount of leakage that we know we can get to the bottom of and stop.

[18] **Renia Kotynia:** I remember, probably about 18 months ago, the first conversation with the supplier was, 'Well, this is a monopoly; you take it or you leave it. There is no option.' There is only one supplier currently for this portfolio. We don't have visibility of the bills because the bills are being sent to individual sites.

[19] **David Mundow:** It's sitting there as sort of the poor relation as a utility, and you can't get very much beyond the basic monthly bill.

[20] **Michael Cantwell:** All organisations, from the Welsh Government down to public sector organisations, seem to have very good data around carbon, very good data around waste, and then water always seems to be the poor relation.

[21] **Will Pierce:** It is probably the hardest utility to actually monitor in terms of how much you're actually using.

[22] **David Mundow:** Automatic metering has been in the energy industry for about five years now and I think the water companies across the UK have been very slow in getting automatic metering in place.

[23] **Antony Smith:** We do not have any assistance at all at the moment from our water supplier to reduce the amount of water we use.

[24] **Alison Pall:** The benefits would include competitive pricing. So, we'd benefit from cheaper prices and also improved customer services. It could make us more competitive, by our costs being lower. We could then have a higher profit margin, or we could decrease the cost of our product.

[25] **Nick Oulton:** We'd have more purchasing power, for a start. Obviously, from a business point of view, we'd be able, as a large independent business and as a group, to purchase at a cheaper rate, which we would pass on to customers. So, fees, and it would affect fee rates and stuff like that. Also, I believe that, if there's a choice, you get a better service. If somebody has a monopoly, then it is, 'Take it or leave it'.

[26] **David Mundow:** *Simple things like group billing, being able to get electronic summaries of invoices rather than having to rely on paper bills, and being able to do simple things like electronic invoicing. We're not quite set up for that ourselves, but it is something we want to do, whereas, at the moment, everything is paid on a paper bill, and it's quite a long and laborious process. Also, looking at additional services like assistance with water efficiency measures and things like that. One of the main things I've noticed, comparing it to the water market, is that the energy companies have upped their game a lot in terms of the additional services they'll provide.*

[27] **Mark Drew:** *Competition should help to improve the service that we get internally.*

[28] **Andrew Barron:** *From our perspective, we are supplied by two different suppliers, so there could be a benefit in terms of having just one supplier.*

[29] **David Mundow:** *I can only see, even if we don't get competition in Wales, but there is competition in England, that the threat of it is causing Welsh Water to improve the services.*

[30] **Buster Grant:** *Cost would be the main implication. The only offset against cost would be the service. If we felt that we were not going to get a decent service or we wouldn't be able to get the analysis done that we require, then that would stop us switching, but, on the basis that, hopefully, all the water companies are professional, they can all maintain that service.*

[31] **Mark Drew:** *The suppliers have been able to be very smart about marketing and ensuring that they get the best in terms of the most out of the person who's paying for it while not necessarily being transparent about the best saving that the customer could make, you know. If you have a supplier that you are paying, will it be responsible for something that goes wrong with another part of the service? Who do you contact in an emergency, you know? You want to be able to deal, I suppose, as we do now, with one supplier that can actually turn off the water and turn on the water and fix the problem.*

[32] **Alison Pall:** *The unknown is whether they would try to charge us for different things that we're not charged for now or try to charge us in a different way. We would need to be very clear what we were signing up to.*

[33] **Graham Jones:** *Ideally, they'd come along with a great price, but the issue is how long we'd have that great price for.*

[34] **Eric Thomas:** *Basically, with the other utilities, and after these were created and where the market was created, there were initial benefits—I do not think that anybody would doubt that—in terms of pricing, but I think all that has been slightly reversed in recent times.*

[35] **Christopher Lewis:** *The border for the water companies is not the same as the Offa or the Welsh border, so would they be saying that—. Well, that area of Powys in particular is the bit that springs to mind, which is currently Severn Trent. Would that be open to competition because it's Severn Trent's region or would the Severn Trent region be cut in half and stop at the border?*

[36] **Buster Grant:** *Obviously, you're slightly dislocated from it. If we were to start dealing, for example, with South East Water or Thames Water, we might discover that we have problems dealing with their customer services teams, because they wouldn't know where we were. We do have specific issues with water quality. Obviously, as I say, it is a raw material for us, so we monitor the pH, we monitor salt contents and we monitor various other bits and pieces. If there is ever a problem, then we'd be trying to find the right person to speak to within one of those organisations. Admittedly, the same thing could be said on both sides of the equation, but, with Welsh Water, we know who they are and they know the*

infrastructure. So, that is a certain advantage for it.

[37] **Graham Jones:** *The danger is that, as I say, they affect the company we are with and that drives our costs up, because, if it starts losing its customer base and is having to supply water at a cheap rate, how does it cover the costs? That's going to drive them up for the rest of the people in that area who can't move. So, the domestic customers are going to suffer.*

[38] **David Mundow:** *The sort of negative consequences would be the additional employee time taken up in just the procurement process, because I imagine that, if it is available, as a public sector organisation we would be obliged to take advantage of it, but, yes, there'd be a worry that we don't want to drive down the price so much that infrastructure suffers. One of the good things about Welsh Water is that any profits that are made are invested back into improving service and, obviously, it's a boost for the Welsh economy. So, that would be another concern.*

[39] **Graham Jones:** *If they're coming in saying, 'We can do it for this', what happens to the investments in infrastructure? They don't take place; they can't take place—the money isn't there to do it.*

[40] **Michael Cantwell:** *Perhaps learning, I think, from what happened with the deregulation of the energy market, now it seems to have settled down to six or so big utility companies, largely owned by state-owned utility companies from the continent, and the Government is having to force these companies to invest in infrastructure, and it's still being passed on to consumers, because obviously it's got to be paid for somehow, you know. What we don't want, if this happens, is for that to be repeated. You need a regulator to say, 'You really need to start investing in infrastructure'.*

[41] **Antony Smith:** *There is a concern that some of those profits will be taken off infrastructure projects and be directed to wooing customers with more aggressive deals. If we have 10 suppliers in the UK at the moment, ultimately, they will become five suppliers and each of those suppliers will be bigger and uglier than they are at the moment, because they will acquire their competitors.*

[42] **Graham Jones:** *You're going to push water companies out of business. They're not going to have a viable model any longer to operate.*

[43] **Mark Woolfenden:** *The challenge is, if you introduce competition in the easy parts of Wales, what is going to be the impact on Welsh Water's cost base in delivering its service in more rural areas?*

9.45 a.m.

[44] **Sandy McIntyre:** *We deal with all sorts of suppliers for all sorts of things. We don't necessarily always have the cheapest price because we do have to have the service with it. It's a balance, really. It is a balance.*

[45] **Will Pierce:** *We would be looking for at least a 5% reduction—at least a 5% reduction—or a £30,000 saving to warrant the risk that that would go with it.*

[46] **Nick Oulton:** *For it to be worthwhile for us to switch, we would need probably some 5% or something like that.*

[47] **Antony Smith:** *I think if we were, you know, between sort of 5% and 15%.*

[48] **Mark Woolfenden:** *If there was a cheap economic way of introducing competition,*

and a genuinely new entrant could come into the market and quote—I do not know—5% to 10% less, would I be interested in switching? Yes, of course I would.

[49] **David Mundow:** Anything beyond about 3%, I suppose, would sort of offset the admin burden.

[50] **Mark Drew:** You know, really, a figure of around 5%. When I say that, you know, the cost for us in terms of water, as a single facility, is around £30,000 to £40,000 a year; a 5% could represent, you know, £1,500, which would be worth it, you know. So, that sort of percentage figure would work for me.

[51] **Mark Woolfenden:** I am not sure that that necessarily would actually deliver a reduction in cost. I actually think that it could actually cost more and actually be a negative effect on business rather than positive. There has to be a real, material cost saving for us to be persuaded that we would actually want to change from supporting what is effectively a semi-community body. I think because of the way, the fact, that Welsh Water is a not-for-profit organisation, providing a service on a national basis, we're not sure this is the route that the Welsh Government should be going down at all. I think if it was a privatised utility and it had shareholders, and therefore plainly making a profit that was being ploughed back to shareholders, it would be a different argument.

[52] **Buster Grant:** If there were significant savings to be made with other companies, then obviously our competitors across the border would have an advantage that we wouldn't have. That could actually lead to Welsh breweries being priced out of the market.

[53] **Alison Pall:** I think that there does need to be something in place to make sure that these, the rates are put out as simply as possible and that there is just, you know, a simplified pricing structure, so that is easily understandable for both businesses and private customers.

[54] **Sandy McIntyre:** Would it reduce the costs to an operator in England against us? It may do. So, you know, it sort of then works out that perhaps they offer, you know, less, their prices of units are cheaper than ours. I doubt whether there would be that much of an effect, but, you know, you think to yourself, 'Well, England's got it, why can't Wales have it?'

[55] **Antony Smith:** We have to put time aside to invest in making sure that we are getting a good and appropriate deal for us. So, it will increase the amount of management hours that we, that we invest in it.

[56] **Graham Jones:** If you could control the leakage and reduce the leakage right down—say they've got to get down as low as possible—it means you don't have to draw as much water from the rivers or the lakes and you take pressure off the environment. You are also not treating all this water that is going to waste. They're only treating what they need to treat, so you're keeping the costs down, so you supply the water a lot more cost-effectively to the customer.

[57] **Emma Davies:** If we had, as we mentioned before, smart metering and we could monitor our water on even an hourly basis—something like that—that would be one of the measures that would be most beneficial.

[58] **Antony Smith:** I think because of the appropriateness, I'd switch because they were offering me a competitive rate, but that they were offering me other long-term sustainable environmental advantages as well.

[59] **David Mundow:** Really, the biggest savings are going to come from reducing waste and not from price competition on the actual unit of water. But the big savings come from

using less water in the first place. So, a lot of the focus has got to be on driving water efficiency, as opposed to driving down the price of it, I think.

[60] **Antony Smith:** *I would like to switch to a supplier, or stay with a supplier, who helps me use less water and also enables me to pay less for the water that I am buying, because then my bill doesn't just shrink at the top end, by the pence per litre that I am buying it for, but it shrinks at the bottom end as well because I am buying less litres.*

[61] **Yr Arglwydd Elis-Thomas:** Diolch yn fawr. Pwy yw cynulleidfa'r fideo hwnnw? Yn amlwg rydych chi, fel tîm, wedi gwneud fideos eraill i bwyllgorau eraill i sbarduno diddordeb mewn cyfranogi o waith pwyllgor—dyna yw'r bwriad, fel petai. Yna, mae'r fideos yn mynd ar ein safle we ni, fel Cynulliad ac fel pwyllgor. Ble arall mae'r fideo yn debygol o fynd?

Lord Elis-Thomas: Thank you very much. Who is the audience for that video? Obviously, as a team, you have made other videos for other committees to stimulate interest in participating in the work of committees—that is the intention, as it were. Then, the videos are put on our website, as an Assembly and a committee. Where else is it likely to go?

[62] **Mr Davies:** Chi, fel Aelodau, yw'r gynulleidfa ar gyfer y prosiect hwn. Rydym wedi cynhyrchu fideos sydd bach yn hirach hefyd. Mae'r fideo hwn tua 17 munud o hyd ac y mae wedi ei dorri i lawr o'r rhyw awr a hanner o *footage* y gwnaethom ni ei gymryd. Bydd fideo sy'n hirach ar y wefan dros yr wythnos nesaf, siŵr o fod, a fydd yn cynrychioli mwy o'r sylwadau a wnaeth pob cyfranogwr fel rhan o'r prosiect.

Mr Davies: The audience for this particular project is you, as Members. We have produced videos that are slightly longer as well. This video is about 17 minutes in length and it was cut down from the footage of about an hour and a half that we had taken. There will be a lengthier video available on the website in the next week, probably, which will represent more of the comments made by every contributor as part of the project.

[63] **Yr Arglwydd Elis-Thomas:** Roeddwn i'n meddwl bod y dadleuon o blaid ac yn erbyn wedi eu gosod mewn ffordd glir iawn. Yn aml iawn, mewn trafodaeth, mae rhywun yn cael safbwyntiau cymysglyd. Roedd yn ddiddorol iawn bod hynny'n dod mas yn y ffordd honno. A oes rhywun sydd eisiau gofyn cwestiynau pellach?

Lord Elis-Thomas: I thought that the arguments for and against were set out in a very clear way. Often, in discussions, we have a mixture of views. It was very interesting to see how that came out. Would anybody like to ask any further questions?

[64] **Mick Antoniw:** One of the problems with this type of thing is that you have to take it for what it is. It is a bit like the argument regarding whether people want more doctors or nurses—everyone is going to say 'yes' or ask 'What's in it for me?'. At the end of the day, it does not take us any further in terms of the analysis. It is quite similar to the Ofwat evidence: they have rung around to ask people whether they support the idea of competition in principle and the immediate view is, 'Well, if it's going to cost me less than yes'. However, this does not really take us any further than that. Is that a fair analysis?

[65] **Mr Davies:** We tried to ask general principle questions and more specific questions to try to draw out more considered answers. We have categorised them to try to show the arguments in a clear way for you as a committee. We asked specific questions around what the potential positives and negatives would be for them, as a business, and tried to delve into that. We potentially would have liked to have had a more detailed insight into the logistics as to why. One of the big things that came out of the project in general was that (a) a lot of people were not aware that the discussions were taking place in London and (b) there was also a lot of confusion around how the system would work. There were a lot of comparisons with different energy markets. The comment about there not being a national grid for water

came up a lot. That is something that came out of it.

[66] **Russell George:** One thing that could have been done, which would have been helpful, would be to have put the main questions in the paper, so that we would have known what was being asked. You could not have done that with the supplementaries, obviously, but at least we would have known that every witness was being asked the same question and we would have known what questions were being asked. I accept that you could do that only to a certain extent, because you wanted to ask supplementary questions. I agree with Mick's point. We could have shown the person asking the question, but that would have taken up time. A medium way would have been to put the questions in the paper.

[67] **Lord Elis-Thomas:** The simple thing that you could do is to have the question as a graphic.

[68] **Russell George:** Yes, that is a good idea.

[69] **Mr Davies:** I agree with that in principle and it is definitely something that we should be thinking of doing, but one of the difficulties is that when you have conversations with people, they may not necessarily answer that question.

[70] **Lord Elis-Thomas:** Good heavens, surely not. [*Laughter.*]

[71] **Antoinette Sandbach:** They may answer another question that is further down your list in answer to a question that you have asked first.

[72] **Mr Davies:** We tried to keep the flow of the conversation going and had the questions as points to refer to later on to make sure that all the issues had been covered. Where possible, we will try to do that in the future.

[73] **Russell George:** In my comments, I did not want to sound as if I was being negative about the approach: I think that the exercise was really useful. It is a good way of reflecting a number of views in a short time. I think that we should do this kind of interview process again; I think that is very useful.

[74] **Lord Elis-Thomas:** I am being my boring old self now in terms of mass communication and society—a boring cultural studies media lecturer. When you see something in a different format in that way, it frames it and then gives you the debate in a way that you can focus on, in a different way than if you were dealing with it on a piece of paper or in a discussion. So, it is good for us as well.

[75] **Keith Davies:** Mae'r cyfarfod ar agor, onid yw e? Rwyf wedi gweld y gynulleidfa. **Keith Davies:** The meeting is open, is it not? I have seen people in the public gallery.

[76] **Lord Elis-Thomas:** Ydy.

Lord Elis-Thomas: Yes.

[77] **Keith Davies:** Yr hyn sy'n fy meco i, pan rwy'n darllen yr hyn mae Ofwat wedi'i ddweud, yw ei fod yn dweud os wnawn ni ddilyn yr hyn y mae ei eisiau a gwneud yr hyn maen nhw'n ei wneud yn yr Alban, bydd y cwsmeriaid i gyd yn manteisio. Nid wyf yn gallu gweld hynny. A ydych wedi gofyn cwestiynau i'r bobl yn yr Alban? Pam mae'n gweithio yn yr Alban? Dyna'r cwestiwn sydd **Keith Davies:** What concerns me, when I am reading what Ofwat has said, is that it has said that if we follow what it wants and do what they are doing in Scotland, all customers will benefit. I cannot see that. Have you asked questions of people in Scotland? Why does it work in Scotland? That is the question that I have. I do not think that we are the same as Scotland. There are a

gennyf fi. Nid wyf yn credu ein bod yr un peth â'r Alban. Mae nifer fawr o fyrddau yn y man hwnnw o'i gymharu ag yma.

number of boards there compared with here.

[78] **Mr Davies:** Na, nid ydym wedi gwneud hynny. Roedd Alison Pall o Stonehouse Brewery. Mae Stonehouse Brewery wedi'i leoli yn Oswestry sydd jyst yr ochr arall i'r ffin. Yr unig berson a fyddai efallai'n gallu rhoi'r math hwnnw o wybodaeth yw Will Pierce sy'n gweithio i Gyngor Sir y Fflint. Roedd yn arfer gweithio i Manweb a Scottish Power yn ystod y cyfnod pan oedd yr *energy markets* hynny yn mynd drwy'r broses hon. Felly, efallai y byddai ei sylwadau ef yn cynrychioli'r mathau hynny o ddadleuon. Ond, na, nid yw hynny'n rhywbeth yr ydym ni, fel tîm, wedi ei wneud o'r blaen o ran mynd allan i siarad â phobl o wledydd eraill wrth ymgynghori ar bethau'r Cynulliad, ond efallai bod sgôp i wneud hynny yn y dyfodol.

Mr Davies: No, we have not done that. Alison Pall was from Stonehouse Brewery. Stonehouse Brewery is based in Oswestry, just the other side of the border. The only person who could perhaps provide that sort of information is Will Pierce who works for Flintshire County Council. He used to work for Manweb and Scottish Power when the energy markets were going through this particular process. So, perhaps the comments that he made would represent those kinds of arguments. But, no, that is something that we, as a team, have not done in the past in terms of getting out there and speaking to people from other nations when consulting on Assembly issues, but that may be something for the future.

[79] **Keith Davies:** Yn ôl yr atebion a gawsom nawr, os yw'r cwsmeriaid yn mynd i elwa, maen nhw'n barod i gael rhywbeth newydd, ond mae'n rhaid profi eu bod yn mynd i elwa—dyna'r cwestiwn mawr, rwy'n credu.

Keith Davies: According to the answers that we had now, if customers are going to benefit, they are ready to have something new, but there is a need to prove that they will benefit—that is the big question, I think.

[80] **Antoinette Sandbach:** As a Member, I find it incredibly useful that you have gone out to people, not only in south Wales, but also in north Wales. I found that very useful because I find that some people are very reluctant to travel down to Cardiff. They perceive that it is a four-and-a-half hour journey and that they may need to stay overnight and it is a very expensive exercise for them to give evidence to this committee.

[81] **Lord Elis-Thomas:** The journey time is getting shorter though, I find.

[82] **Antoinette Sandbach:** Not much. There could be a useful infrastructure debate that deals with journey times. [*Laughter.*] From my point of view, I know that there are many constituents in north Wales whom I feel would like to contribute to the committee's work and I am very pleased to see this outreach work that brings the Assembly out of Cardiff and into the different regions of Wales. I think that it is very important to hear those different views.

[83] **Lord Elis-Thomas:** There is compatible video-conferencing in every local government centre in Wales that we could always use.

[84] **Antoinette Sandbach:** Yes, but this format is very difficult to recreate in a video-conference. Having sat as a committee member via a video-conferencing link, you feel very much that there is a distance, whereas if you talk to someone face to face, often that brings forward better evidence.

[85] **Lord Elis-Thomas:** I appreciate that.

[86] **Antoinette Sandbach:** It is also not as intimidating as walking into a room with all

these committee members who are then potentially—

[87] **Lord Elis-Thomas:** Are we intimidating? [*Laughter.*]

[88] **Antoinette Sandbach:** No, Dafydd, I am sure that we are not. However, I think that it is a useful tool to draw out—

[89] **Lord Elis-Thomas:** Yes, I am agreeing with you.

[90] **Antoinette Sandbach:** I think that what I am trying to say is that it is a useful tool to draw out people's thoughts. Particularly when they are in their own environment, where they are comfortable, their answers are much more natural and much closer to how they feel. So, that is what I wanted to say.

[91] **Lord Elis-Thomas:** Cyn i mi alw David, a oes hawl gennym i ni gomisiynu hyn bob tro pe byddem yn ffansio gwneud hynny? **Lord Elis-Thomas:** Before I call David, do we have a right to commission one of these every time, if we fancied doing that?

[92] **Mr Davies:** Gallem siarad am hynny. **Mr Davies:** We could discuss that.

[93] **Lord Elis-Thomas:** Tu fas i'r pwyllgor efallai. **Lord Elis-Thomas:** Outside the committee perhaps.

[94] **David Rees:** It is an interesting tool, but some points occurred to me that we would want to explore further and in terms of how we would do so. For example, you talk about the benefits and mainly about cost, but you also raised a point about service and quality. I would like to know which were the most important and beneficial to them. Would it be cost or the service and quality that they receive? That is an opportunity that we cannot take forward in that sense. It is a tool, but we need to be careful about being able to explore further some of the points that they raise.

10.00 a.m.

[95] **Mr Davies:** I think that there might be scope for us as a team to have more of a dialogue with the committee and, maybe, with you as Members throughout the process, to make you aware of the types of themes and comments that are coming up. If you were aware of these issues throughout the process, then maybe you could have added a couple of questions and asked us to delve in a bit more to do that for you. So, there might be scope for that.

[96] **Lord Elis-Thomas:** We have, of course, developed our own thinking on how we do inquiries. We have much more emphasis now on private seminars—well, they are not private seminars, but seminars that are part of the public process. They are not like evidence taking and they give us an opportunity to discuss the issues that emerge in our inquiries. Maybe we could consider what questions we might like to ask in an audiovisual dialogue with the committee, as part of that, when we draw up the specification for our inquiries and when we have our expert witnesses in at an early stage, to open up the field for us. So, it would not just be about people coming here, but audiovisual contributions and video-conferencing as well.

[97] **Llyr Huws Gruffydd:** Roeddwn yn teimlo ei fod yn werthfawr iawn. Fodd bynnag, fel y dywedodd Mick, rhaid inni ei dderbyn am beth ydyw, sef cyfres o ddatganiadau gan bobl. Fel y dywedoch, **Llyr Huws Gruffydd:** I felt that it was very valuable. However, as Mick said, we must accept it for what it is, namely a series of statements from individuals. As you said, they were not necessarily well versed in what

efallai nad oeddent wastad wedi'u trwytho yn yr hyn a oedd yn cael ei gynnig. Efallai y byddai crynodeb fideo o grŵp ffocws yn gyfrwng arall, gyda chyfle i fynd o dan groen rhai o'r atebion, yn hytrach na chlywed cyfres o ddatganiadau yn unig.

[98] **Mr Davies:** O ran y broses hon, roeddem wedi cytuno ar y *target audience* ar ddechrau'r ymgynghoriad gyda'r ymchwilydd a'r tîm clericio. Pennwyd busnesau sydd ar y ffin fel targed ar gyfer yr ymchwiliad. Yr hyn rydym wedi dod ar ei draws wrth geisio gweithio gyda busnesau yw ei bod yn anodd, ar adegau, i gael pobl at ei gilydd mewn digwyddiad neu grŵp ffocws. Mae'n ymwneud yn fwy â mynd atynt pan mae'r amser a'r lleoliad yn gyfleus. Felly, mae tystiolaeth ar fideo yn un o nifer o bethau rydym yn eu gwneud fel tîm. Rydym yn cynnal digwyddiadau, grwpiau ffocws a phethau tebyg, ond rwy'n cymryd dy bwynt.

[99] **Lord Elis-Thomas:** We will move to Vaughan Gething, our newly ennobled Chair of a big committee.

[100] **Vaughan Gething:** I do not know about ennobled. [*Laughter.*] I take on board Llyr's point. If you could get a focus group, that could be interesting, in terms of people talking to each other in the round. On this specific point, I would be interested in seeing, once we come to our own conclusions, whether those same people who took part would be interested in feeding back views about what they thought about our report. I think that that would be useful, from people who have taken enough interest to talk to the outreach team. I appreciate that they may not want to log on to Senedd.tv to watch all the proceedings—they may have other things to do, in running their own businesses. However, I would be interested in a view from those people about what they think of our conclusions. I would not expect that they would all agree, but I would be interested to see what they think about where we reach in the end. It is this whole thing about having a considered view on what, I am sure, will be our considered view, as opposed to just to saying, 'Price is all that matters' and how we balance those things ourselves.

[101] **Yr Arglwydd Elis-Thomas:** Mae Catherine wedi gwneud y pwynt, wrth inni drafod a gwyllo, ei bod fyny i ni allu mynd yn ôl at y bobl hyn. A fyddent yn fodlon inni fynd yn ôl i ofyn cwestiynau eraill?

was being proposed. A video summary of a focus group might be another medium, with an opportunity to really get to grips with some of those questions, rather than just hearing a series of statements.

Mr Davies: In terms of the process, we agreed on the target audience at the beginning of the inquiry with the researcher and the clerking team. We chose businesses on the border as the target for the inquiry. What we have come across is that, when we want to work with businesses, it is difficult, at times, to get people together in events or a focus group. It is more about going to them at a time and location that is suitable. So, video evidence is one of a number of things that we do as a team. We also hold events, focus groups and so on, but I do take your point.

Lord Elis-Thomas: Catherine has made the point, as we were discussing and watching the video, that it is up to us to go back to these people. Would they be willing for us to go back with further questions?

[102] **Mr Davies:** Byddent, rwy'n siŵr. Yn gyffredinol, rydym yn bwydo yn ôl iddynt os ydynt wedi cymryd rhan mewn ymgynghoriadau. Ar adegau, rydym wedi gwneud fersiynau llai o'r adroddiadau, yn crynhoi prif argymhellion y pwyllgor. Felly, rydym yn ceisio rhoi deunyddiau iddynt sy'n addas ar eu cyfer. Mae hynny'n rhan o'r broses. Gallwn gwneud hynny.

Mr Davies: Yes, I am sure. Generally speaking, we do feed back to people who have participated in consultations. On occasion, we have produced summary reports, giving the committee's main recommendations. So, we try to give them material that is appropriate for them. That is also part of the process. We can certainly do that.

[103] **Lord Elis-Thomas:** As it happens, later this morning we will be discussing our future programme of work. On the point that you made about how we could use this as follow-up, we are now reaching the six-month point of our notorious energy policy and planning study, looking at what the Government has done, or not done. Going back to some of our lead witnesses, in audiovisual form, might be a very useful way of marking that anniversary.

[104] **William Powell:** I thought that it was an extremely useful tool that we have had this morning. What Vaughan suggested is a good idea. It need not be one session; it could be thematically based—for example, those involved in delivering public services and those in businesses. There are different issues to explore there, if were to go back to them, as you suggested.

[105] I will ask a couple of brief questions. Was there anybody who took part who would have been more comfortable in Welsh? It struck me as a little surprising that nobody had chosen to do that; obviously, that would have been available to them, with subtitles for us. Also, I found Buster's contribution a little difficult to decipher, because of the background noise of Brecon Brewing. It might have been usefully backed up with some subtitles, but that is just a minor point, because of my hearing deficiency.

[106] **Mr Davies:** With regard to the fact that there were no Welsh contributions, every member of the outreach team is bilingual, so we give them that opportunity. The target audience for this inquiry was private sector organisations and public bodies on the border; had we gone to a different part of the country we may have had more Welsh contributions. With regard to the audio for Buster's contributions, we have recently invested in lapel microphones, so hopefully, in the future, issues around background noise should be resolved.

[107] **William Powell:** Or possibly—[*Inaudible.*]—if that is available as an alternative?

[108] **Mr Davies:** That is not a problem.

[109] **David Rees:** You said that you focused on the border; I understand why, but it would have been interesting to have the view of someone further away from the border, perhaps, who may be a heavy user of water to see what their considerations would have been.

[110] **Lord Elis-Thomas:** You did have—

[111] **David Rees:** I was thinking about industries. Clearly, there is some heavy industry in the west, and it would have been nice to hear their views on whether it could have been achieved in their areas.

[112] **Mr Davies:** Definitely. It is the one of the sectors that we tried to target with which we did not have much luck. In terms of who contributed to the video, we had health boards, breweries, care homes, business parks, laundries, leisure facilities and public sector organisations. We met with Nia from the Consumer Council for Water Wales to discuss the types of questions that we would be asking and the types of organisations that we would like to use, and that is probably one of the sectors that we did not get much contribution from. There are a variety of reasons for that, such as timescales and so forth. We held a focus group with BAE Systems as part of this project. I agree that it is something that could have been included in the video, but it is a sector that we did target.

[113] **Antoinette Sandbach:** Did you try to speak to Shotton paper mill, which has experience of switching? I see from our research brief that Dŵr Cymru had to pay £2 million in damages to Albion Water because of excessive charges for the carrying of the water, if you

like. It would have been quite useful, because it is a Welsh business—based in north Wales—and a heavy water user. It would be very useful to hear about its experience of switching, particularly bearing that case in mind.

[114] **Mr Davies:** Looking through my list, it is not an organisation that we tried to contact. Again, this goes back to David's earlier point about having a greater dialogue with you about the types of questions that we ask and the types of organisations that we go out to see for different projects further down the line.

[115] **Antoinette Sandbach:** You could also have spoken to Albion Water, which could provide its own perspective on the impact and tell us what it could offer. At the moment, there is a monopoly provider in my area and, effectively, I have no choice but buy my water from that provider—both as a business and as a household customer. It would be interesting to see what the potential is and what Albion could offer, for example.

[116] **Yr Arglwydd Elis-Thomas:** Diolch yn fawr; mae ein tystion nesaf wedi cyrraedd. Gohiriwn am bum munud, gan ailgychwyn am 10.15 a.m.. Diolch yn fawr; mae wedi bod yn fuddiol iawn i ni feddwl mewn ffordd wahanol. Ni allwn gael gormod o dystiolaeth, ac un o'r mantras a ddefnyddiwn yn y pwyllgor hwn yw bod adroddiadau'r pwyllgor ddim ond mor werthfawr â chyfranogiad y rhanddeiliaid. Rydym yn llwyfan i syniadau lifo drwyddom. Diolch yn fawr.

Lord Elis-Thomas: Thank you; our next witnesses have arrived. We will break for five minutes and reconvene at 10.15 a.m.. Thank you; it has been very beneficial for us to think in a different way. We can never have too much evidence, and one of our mantras in this committee is that committee reports are only as valuable as the contribution of the stakeholders. We are a platform for ideas to flow through us. Thank you.

*Gohiriwyd y cyfarfod rhwng 10.10 a.m. a 10.26 a.m.
The meeting adjourned between 10.10 a.m. and 10.26 a.m.*

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

[117] **Yr Arglwydd Elis-Thomas:** Mae'r pwyllgor yn awr yn parhau â'i ymchwiliad i bolisi dŵr. Rydym wedi derbyn tystiolaeth gan rai o'r cwmnïau: Dŵr Cymru a Severn Trent. Mae'n bleser gennyf groesawu'r rheoleiddwyr, a derbyn tystiolaeth gan Ofwat ym mherson Keith Mason, yr uwchgyfarwyddwr cyllid a rhwydweithiau.

Lord Elis-Thomas: The committee will now continue with its inquiry into water policy. We have heard evidence from some of the companies: Dŵr Cymru and Severn Trent. It is my pleasure to welcome the regulators, and to receive evidence from Ofwat in the person of Keith Mason, senior director of finance and networks.

[118] Gofynnaf gwestiwn cyffredinol i ddechrau. A fydech yn derbyn, Mr Mason, efallai fod dŵr, fel pwnc, yn fwy dadleuol a gwleidyddol yng Nghymru nag yn unman arall yn y Deyrnas Unedig?

I will ask a general question to start. Would you accept, Mr Mason, that the issue of water is perhaps more controversial and political in Wales than in any other part of the United Kingdom?

[119] **Mr Mason:** I would not necessarily say that it is more political in Wales than elsewhere. There are quite a lot of places in England where people might describe it as a political issue. Scotland, similarly, has its own regime, as does Northern Ireland, where it is only just looking at having to pay separately for water; it was previously included in what was the rates bill. So, yes, I agree that each jurisdiction has its own views on water, but it is very

important for everybody, because it is clearly very important to public health, and it is something that everybody needs to live their daily life.

[120] **Yr Arglwydd Elis-Thomas:** Nid yw hwn yn gyfle a gaf yn aml iawn, ond efallai ei bod yn briodol imi sôn am hanes polisi dŵr yng Nghymru a'ch atgoffa chi fy mod i, Gadeirydd y pwyllgor hwn ar hyn o bryd, unwaith yn Aelod Seneddol a gafodd ei ethol chwe blynedd wedi agor cronfa ddŵr o'r enw Llyn Celyn yn etholaeth Dwyfor Meirionnydd—Meirionnydd ar y pryd. Un o weithredoedd y Llywodraeth Geidwadol dan arweiniad y Farwnes Thatcher—o barchus goffadwriaeth, fel y dylwn ei ddweud, yn sicr y bore yma—oedd creu corff cyhoeddus o'r enw Awdurdod Cenedlaethol Datblygu Dŵr Cymru. Dyna oedd ei deitl, gan ddefnyddio'r term 'cenedlaethol' am y tro cyntaf ar yr ystatud. Digwyddodd hynny oherwydd bod dŵr yng Nghymru yn fater gwleidyddol. Mae unrhyw newid mewn polisi dŵr oddi wrth y sector cyhoeddus i sector y farchnad yn sicr o fod yn fwy dadleuol yng Nghymru nag yn unman arall, byddwn yn awgrymu.

Lord Elis-Thomas: This is not an opportunity that I have very often, but it is perhaps appropriate for me to speak about the history of water policy in Wales and remind you that I, currently the Chair of this committee, was once a Member of Parliament who was elected six years after the opening of the reservoir called Llyn Celyn in the constituency of Dwyfor Meirionnydd—Meirionnydd at that time. One action taken by the Conservative Government of Baroness Thatcher—of revered memory, as I should say, certainly this morning—was to create a public body called the Welsh National Water Development Authority. That was its title, using the term 'national' for the first time in statute. That happened because water in Wales is a political issue. Any change in water policy away from the public sector and toward the commercial sector is certain to be more controversial here than anywhere else, I would suggest.

[121] That is my last question.

[122] **Antoinette Sandbach:** Was that a question?

[123] **Yr Arglwydd Elis-Thomas:** Yes. [*Laughter.*] It was a historical statement. Anyway, I shall move on to Mick Antoniw.

[124] **Mick Antoniw:** Thank you for your report; it is certainly very illuminating. I would like to ask a couple of preliminary questions and then come on to one or two more substantive points, because the evidence that you raise clearly goes to the heart of some of the issues that we have to discuss.

10.30 a.m.

[125] One of your primary duties is to protect the interests of consumers where appropriate, by promoting effective competition. You also have a number of secondary duties, one of which is with regard to sustainable development, which is a legislative responsibility of the National Assembly for Wales that was built in by the Government of Wales Act 2006. Do you see a conflict between what are set out as primary duties and secondary duties, in terms of affecting the way in which you approach this issue?

[126] **Mr Mason:** I would not necessarily describe the duties as being in conflict, because we look at all our duties when setting out and operating the regulatory framework. One of our secondary duties, as described, is about promoting economy and efficiency. However, we are the economic regulator, so one of the main things that we are looking to ensure is that companies operate as efficiently as possible. So, making companies more efficient is of benefit to customers, because they get lower bills. Similarly, with the sustainable development duty, as an organisation, we thought long and hard about how we might look at that. It is a bit strange, posing it as a secondary duty, because all of the things that you will do,

will have to have regard to that sustainable development duty, so it percolates all the operations that we look at. So, the distinction between primary and secondary duty, although legal, is not necessarily the way we operate as a whole.

[127] **Mick Antoniw:** Some of the functions are more important than others in terms of the way your statutory duties are set out.

[128] **Mr Mason:** In a legal sense, there are what are termed as 'primary duties', but you could say that by trying to protect the customer and enabling companies to carry out their functions, a lot of the functions and the protection of the customer will be about promoting and having a sustainable environment. So, as I said, the secondary duties, except where they are very specific, permeate and percolate through all of our operations and the way in which we carry out the regulatory framework.

[129] **Mick Antoniw:** In terms of the way that your functions have been carried out since the privatisation of water, as you say in your report, the work of Ofwat has effectively kept bills £120 lower than they would otherwise have been and has secured about £8 billion of investment. So, presumably, you consider that that is a bit of a success story for Ofwat and that you can claim some of the credit for that.

[130] **Mr Mason:** I would say that the companies can claim primary credit, because they carry out the functions. However, the way in which we have done our work has meant that because of the fact that the companies are monopolies, the operation of a regulatory framework, and the fact that there is an economic regulator that puts a cap on prices and promotes economy and efficiency, companies are now more efficient than they might have been if left to their own devices since privatisation. That calculation of £120 is derived from efficiencies that have been drawn from the companies over that period of time, such that, if we were not around, that is what bills might have been.

[131] To pick up on your investment point, yes, the £8 billion is what Dŵr Cymru Welsh Water has invested since privatisation. The regulatory framework has been attractive for companies to be able to raise finance and take in that investment to improve services for customers.

[132] **Mick Antoniw:** I will take that as a bit of regulatory modesty.

[133] In another part of your report, you say that the sector now faces a different set of challenges from the chronic underinvestment that was a problem at privatisation. We are almost 25 years on from privatisation. Is it not the case that the chronic underinvestment is really an example of dereliction of duty and failure on behalf of Ofwat? Twenty-five years on and we still have a situation where the way in which you have regulated the industry is such that we are in a chronic underinvestment position with all sorts of serious consequences.

[134] **Mr Mason:** The point that we made in the evidence was that, at the time of privatisation, there was, perhaps, chronic underinvestment. The £8 billion in Wales and the £108 billion that has been invested across England and Wales since privatisation means that the quality of services is now very much improved compared with 1989. The important point that I tried to make in the evidence was that there is a continuing need for investment, and again, at the time of privatisation, there was perhaps a view that some sort of big pile of investment had to be made and then everything would be hunky dory and very rosy. What we found over time was that there was a continuing need to carry out investment, particularly on maintenance, so that services continue to be provided at a high standard to customers, and may that continue into the future. This is a long-term industry, and the assets that the companies use generally have a very long life, and so you could continue to have services flowing, and have the particular level of services go on for a little while, and it is only later

on, if you do not carry on maintaining those assets, that the services start to deteriorate. I would not want to say that every piece of investment that every company wants to do has been done, but there is always that balance that we have as the regulator. As you said, our duties balance both protecting customers and allowing companies to carry out their functions in an efficient way. We have to balance affordability and cost to customers against the services offered. The point is that it is not about chronic underinvestment now—a huge amount of investment has happened, and a huge amount of investment is needed to maintain that, but the services provided to customers now are incredibly better, much improved on 1989.

[135] **Mick Antoniw:** So the system generally is working pretty well, and as you go on to say in your report,

[136] ‘we support the UK Government’s proposals to introduce choice for non-household customers’.

[137] So, effectively, you are supporting the thrust of the proposed Government legislation in respect of introducing competition in non-household purchase of water and supply. I do not know whether you have had the opportunity to look at any of the evidence that we have considered already, in particular the evidence of Mr Nigel Annett? Are you familiar with that?

[138] **Mr Mason:** I have read through it, yes.

[139] **Mick Antoniw:** In his evidence, he raises a number of concerns. Of course, they have a particular model. He mentions that we must be sure that business expectations are realistic. He says,

[140] ‘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’.

[141] Is that something that you agree with?

[142] **Mr Mason:** We do need to be realistic about balancing the costs and benefits to customers, but particularly for business customers, there has been a lot of frustration, across England and Wales, about the fact that they have no choice in what, to them, is probably one of the last services where there is no choice available. With electricity, gas and telecoms, businesses all have a choice of who provides that service to them, and water is very much the last of those. It is that frustration from business customers that means that it is important that we consider that, at the retail end, business customers—and we are not talking here about households or domestic customers—do have a choice. I do not know whether Nigel’s particular figure of £250,000 is the right one, but, in terms of the total costs for companies, the retail part of that is not a huge amount, but it is the value in giving business customers choice that is very important.

[143] **Mick Antoniw:** So, you are taking choice as a value in itself, irrespective of what the consequences of it are. In the second part of his evidence, which followed on from that last part, which you say you have read, he said that the costs of setting up this system to allow people to switch in Scotland was £22 million, and the current estimate for England and Wales is £40 million. We know that, in many of the other markets that have gone through a similar process, the actual cost turned out to be three or four times as high. Is that scenario something that you think is correct as well? Do you agree with that part of his evidence?

[144] **Ms Mason:** When the UK Government brought forward the water White Paper, it did an impact assessment that showed a positive cost-benefit analysis, and that would have

included the costs of setting up a market system. I cannot remember the precise figures, whether it was £22 million or £40 million, including that impact assessment, but it was a positive benefit. I think that that is without necessarily valuing this choice factor; it is simply about the benefit of reducing, particularly, the use of water. What has been found in the Scottish example, which is probably the nearest example to the retail market that the UK Government is looking to introduce, has been the fact that retailers have been better at offering water efficiency services to large users, and large users—business users—have saved around £35 million to £40 million simply in terms of water efficiency. So, it is not simply about price; it is about choice, but it is also about using water more sustainably.

[145] **Antoinette Sandbach:** I wonder whether—

[146] **Lord Elis-Thomas:** Order. I will call you in a moment. Mick has one more question. You mentioned that you had six questions, Mick. Are we at number six now?

[147] **Mick Antoniw:** There are many that I would like to ask, but let me just ask this one: in your report, you say that, potentially, over the next 30 years, if we get this right, we could have savings of £18 million to business. That is £600,000 per year. So, we could potentially be going through a major change—and you have identified that there are major risks—for the sake of £600,000 per year. Is it really worth the effort?

[148] **Mr Mason:** I accept the figure; I think that the £18 million that you referred to is the calculation that has been done in respect of Wales and Welsh customers.

[149] **Mick Antoniw:** We are concerned only about Wales here.

[150] **Lord Elis-Thomas:** Actually, we do not have competence to be concerned with England, do we, at the moment?

[151] **Mick Antoniw:** No, none at all. Not yet. [*Laughter.*]

[152] **Mr Mason:** Even that small figure may well be worth having for business customers if that is a saving. I take your point about the fact that cost estimates and risks may not be borne out, or they may be borne out and things may cost more, but that applies to quite a lot of things. That is the best estimate that we can see at the moment.

[153] **Antoinette Sandbach:** I wanted to come in on the point about increased efficiency. I would like to ask your view on metering and the likelihood of that being introduced. Perhaps I could explain my own situation: I am in a rented house where I am charged on a business tariff because it is linked with farmland. My water supplier will not separate my property from the business use, so I am forced to pay business rates and not residential rates. I am certainly one of many. So, how do you think introducing such measures would help with metering? Are you aware of that problem in Wales, where there are residential customers who are, in effect, being forced to pay business prices?

[154] **Mr Mason:** Metering, again, is one of those areas where we think that it is the best way of achieving efficiency and sustainability, because you get a measurement of how much water people use and they pay for how much they use, subject, of course, to making sure that low-income customers can properly afford their bills. As in many of these things, there is always a balance about the cost of introducing metering, because metering is not free, it does have a cost, and the generality of customers pay for that cost. However, in cost-benefit terms and particularly in water-scarce areas, it is beneficial.

[155] In terms of where it is a mixed choice, with regard to classification, I would not want to comment on your particular case, but, once again, if the threshold for people who could

have a choice was reduced to zero, then, if you were classed as a business, you would be able to have a choice. However, it is perhaps unfair where it is not right that the company does not offer separation and a separate meter for the domestic use compared with the business use.

[156] **Antoinette Sandbach:** It is offering it at a charge of £3,000. So, perhaps I shall write to you on that matter.

[157] I would like to come back to affordability, because you talked about that. One of the concerns raised by Dŵr Cymru is that it has had problems getting the social tariffs approved by Ofwat because of the research that you have done that shows that customers are reluctant to have cross-subsidies. Would you comment on that? Do you accept that it is difficult to get Ofwat approval for those social tariffs?

10.45 a.m.

[158] **Mr Mason:** Up until now, in respect of social tariffs in cases where there is additional cross-subsidy—namely, cases where other customers are paying to have this particular subsidy—our line has been that it is not our remit to say that customers should be paying to subsidise other customers. We have felt that that was more a matter for Government. We have said that, if the Government was to say that social tariffs were the right policy to adopt and was to give some clear guidelines on the extent to which there should be cross-subsidy, we would support that and would approve tariffs where we would need to approve them. We welcome the social tariff guidance that came out at the start of last month. We think that it is reasonably clear. There was something similar in England, and we have seen the first examples in this charging year, which started on 1 April, of social tariffs under that policy in England. We approved all of those. This is about asking general customers to pay for this particular tariff, where the quality of the research is not necessarily conclusive. We felt that it was not for us to approve those particular tariffs.

[159] **Antoinette Sandbach:** In your paper, you indicate that you anticipate that a fair amount of innovation will arise out of the water market if the element of competition is allowed. What kind of innovation are you expecting to see?

[160] **Mr Mason:** We have looked at two main areas where you might introduce competition: the retail part and the upstream part. In retail, it is about water efficiency and the use of one bill, perhaps, where you have a huge number of sites. There is an example in our evidence of a supermarket that has saved up to £200,000 by simply having one bill instead of 4,000. The upstream area is a more difficult area. There are bigger costs and there are water-scarce areas. If you can find innovative ways of providing sustainable ways of providing water, that can only be for the benefit of sustainable water resources. That is an area that we need to look at. In the early period, that is about looking at where water can be economically moved between areas of shortage and areas where there is a surplus.

[161] **Antoinette Sandbach:** Does your cost-benefit analysis of £18 million include those upstream innovations?

[162] **Mr Mason:** No, the £18 million is simply from introducing retail competition. The second figure in the evidence, which I think is £87 million, is the cost-benefit impact assessment of introducing upstream measures. Overall, across England and Wales, that is more of the order of about £2 billion.

[163] **Antoinette Sandbach:** Did you say £2 billion?

[164] **Mr Mason:** Yes, £2 billion. That is across England and Wales.

[165] **Antoinette Sandbach:** Thank you very much.

[166] **Vaughan Gething:** I wanted to return to a point that has been raised by Antoinette Sandbach: the issue of cross-subsidy. One concern that has been put to us in evidence is that if you have non-domestic competition and costs are driven down in that area, that may place greater price pressure on the domestic user. I am interested in whether you have taken that into account and whether you recognise that as a real risk.

[167] **Mr Mason:** Clearly, we would not want that. There are a number of ways of doing this. In respect of the benefits that should accrue to non-domestic customers, either through price or water efficiency, you can have spill-over benefits from that, which can apply to domestic customers. In terms of ensuring that companies do not try to allocate in an incorrect manner, such as pushing costs onto domestic customers, we will have to monitor that very strongly. We have powers under the Competition Act 1998 if it looks as if that is what companies are looking to do. We are certainly alive to that particular situation. We undertake price control and we will continue to do so in relation to people who do not have a choice—largely domestic customers. So, it is an area that we are aware of and on which we would come down strongly if we saw any evidence of it once the market had been opened.

[168] **Vaughan Gething:** Part of the concern that constituents and we, as scrutinisers and policy makers would have, in terms of the history of regulation of any of the utilities or industries that are regulated, is that, while the powers and responsibility are there to look at matters of pricing and whether they are fair to the consumer, those powers are not used in a manner that the public recognises as being effective. For example, if you look at the current electricity utilities and how pricing matters have been dealt with there, you will see that there has been widespread concern that has taken a long time to feed through into action. You said that that is a risk that you recognise—I think that you said, ‘Yes’ to that—and that you would look at that, but what confidence would we have that you would effectively be able to monitor and intervene at an early stage?

[169] **Mr Mason:** It is a risk that we recognise and I think that we can learn from errors and mistakes and where things have gone wrong in other markets. The other point to draw out is that, unlike electricity and gas, we are talking solely about non-domestic customers, for example business customers. Depending on where you were to draw the line on the size of the business customer that could participate, it could be that it is only people of whom you may say that they are business customers who make their own decisions, so they ought to be perhaps less susceptible to some of the things that we have seen in the energy market compared perhaps with domestic customers. Although the market has only been open for five years, I do not think that you have seen the same degree of this sort of thing happening in Scotland.

[170] **Vaughan Gething:** I want to go back to what is already possible. You have spoken about a number of things and some business customers can already look to switching suppliers. We have evidence from Severn Trent Water about matters that it has already dealt with and I know that Welsh Water is tackling this as well. Things like single billing are already possible. So, I am interested in why you are not currently able to drive those sorts of improvements that are largely customer-service improvements from the one point of view—from the supplier to the business. In terms of the culture within the business community that can already switch, why are they not already switching more effectively and more regularly, given that a number of people already can?

[171] **Mr Mason:** The threshold at which they are set means that currently only a small number can set. In England, that has very recently changed and has come down to 5 MLs per year. So, even then, you only have a pool of about 26,000 customers who can participate. Previously, the figure was around 2,000, and those figures are England and Wales figures

combined. So, the pool is not large. There have been examples of people who have switched. However, it is possibly about the potential to be able to switch that has meant that the company has paid more attention to those particular customers and has focused more on those customers' needs.

[172] You had a second part to your question; could you repeat it?

[173] **Vaughan Gething:** Yes, on single billing. Severn Trent Water spoke about it as being a potential advantage that it provides to its customers. Why does that not already happen more regularly? If you are a big business with a multisite operation, whether you are in the public or private sector, and you know that this is possible, does that really require a change in the law and the sort of competition that you are talking about?

[174] **Mr Mason:** It is not possible at the moment. So, where you have a national chain, they will be customers of the individual water companies as they are set out at the moment. Retail competition would allow that national chain to say, 'I would now like x company to provide my retail services nationally', and so they would then be able to provide the one bill as opposed to getting a number of bills, and I gave an example of the supermarket where the number of bills went into the many hundreds. So, given that they have individual customers in individual water companies and there are 20-plus water areas, it is not possible at the moment.

[175] **Vaughan Gething:** No, but my point is that if you have a number of business sites in the same area—for example, if you have 12 different business sites all served by Welsh Water, do you really need to introduce competition for that business to be able to get a single bill from Welsh Water?

[176] **Mr Mason:** No, you do not. You are absolutely right. However, for some reason, Welsh Water has, perhaps, not done that. I do not want to pick out Welsh Water, because I do not know whether it does or not. However, it is clear from large customers that have a number of sites that this sort of thing does not happen. It is done on a site basis, or even a meter-by-meter basis.

[177] **Vaughan Gething:** I have two brief things to ask you. Until that change in England to reduce the volume from 50 MLs to 5 MLs, how many of those 2,000 businesses have switched?

[178] **Mr Mason:** I do not know the precise figure, but I can find that out for you.

[179] **Vaughan Gething:** Okay, I think that that would be helpful.

[180] Secondly, in your paper, you talk about Welsh Water's relative level of bad debt. You say that

[181] 'Dŵr Cymru has particularly high bad debt costs compared with other companies in the sector'.

[182] There is then a footnote, which acknowledges that

[183] 'there could be different reasons for this beyond inefficiency and the company has argued that, among other factors, its level of bad debt is influenced by the local customer base and the level of deprivation'.

[184] How do you recognise that as a factor? On the one hand, what your main paper says is fairly critical of Welsh Water and on the other, the footnote says that there may be an explanation. How does that compare with other companies here? In particular, how do you

measure Dŵr Cymru—how it has entered the market and its inherited level of bad debt when it was created and took on responsibility?

[185] **Mr Mason:** I think that you are referring to figure 1 in our evidence.

[186] **Vaughan Gething:** That is right; the figure on page 10.

[187] **Mr Mason:** What we are saying there is that there are a number of factors behind what companies describe as a bad debt. One of them may be about their relative efficiency in collecting money and the way that they go about trying to collect money. However, it may be down to the type of community they serve—perhaps they are relatively low income areas or areas of relatively low income compared with others. You cannot just make the simple, straightforward comparison that suggests that, because one number is higher, they must be worse and less efficient. So, the footnote was just trying to make that particular point. Each of the companies—certainly the company to the far right of that chart—would argue that they have the most vulnerable and the lowest income areas in the whole of England and Wales. That is certainly a factor. We have, in the way that we were looking to set price limits, tried to make sure that that factor is properly taken into account in any allowance that we were to make for price limits.

[188] **Vaughan Gething:** Given that your main text is critical, would you accept that it would be helpful to have more in the front and centre, rather than in a footnote—maybe an expression of your view about the extent to which you think the customer base is a relevant factor and the extent to which, in Dŵr Cymru’s case in particular, you take account of the debts that it would have inherited on being created? After all, we want to measure its performance since it took on the responsibility, to have a fair measure of where it is and what it can do.

[189] **Mr Mason:** You say ‘since it took on the responsibility’; it took on the responsibility in 1989, so that is over 20 years ago. All companies—

[190] **Vaughan Gething:** Dŵr Cymru was not created in 1989.

[191] **Lord Elis-Thomas:** I think that we should let our witness respond, rather than have uncalled supplementary questions.

[192] **Mr Mason:** Welsh Water has been the same company since 1989. Certainly, the company that we regulate has been the same company since 1989, although its ownership has changed. The extent to which it has low-income communities is important, but it is important to all the companies. I think that all the companies would say, ‘We have areas where there are people who are on low incomes’, so they must take greater care about how they approach them and how they collect their bills. It is in the interests of all the other customers, because all the other customers are paying for this extent of bad debt. I think that we have said that, for Welsh Water, it is around £15 per bill. So, the cost of bad debt is carried by every other customer.

[193] **Vaughan Gething:** Do you have any measure of the current company in its current form, where operating profit is reinvested? Do you have a measure of how the current operation and the current company is performing, rather than the utility that exists as Welsh Water in all its different business forms since 1989?

[194] **Mr Mason:** I could certainly provide you with that, if you are interested. You are talking about 2001, when Glas Cymru came into existence, so the last 10 to 12 years. I can try to see whether I can reproduce this graph from 2000 for you and make a comparison between before it was owned by Glas Cymru and now.

11.00 a.m.

[195] **Lord Elis-Thomas:** That would be very helpful.

[196] **Llyr Huws Gruffydd:** Rwyf eisiau dod yn ôl ar yr arbedion honedig a fydd yn cael eu gwireddu o gyflwyno elfennau o gystadleuaeth i'r farchnad. Yn y dystiolaeth rydym wedi ei chael gan Dŵr Cymru, dywedodd ei fod eisoes wedi gwireddu gwerth £2 biliwn o arbedion yn y 12 mlynedd ddiwethaf, sydd yn awgrymu bod £600,000 y flwyddyn o bosibl yn eithaf tila mewn cymhariaeth. Hoffwn wybod beth yw eich ymateb i hynny i gyhwyn.

Llyr Huws Gruffydd: I want to return to the savings that it is claimed will be achieved by introducing an element of competition into the market. In the evidence that we have received from Dŵr Cymru/Welsh Water, it said that it has already achieved £2 billion-worth of savings in the past 12 years, which suggests that a possible £600,000 per annum is relatively paltry in comparison. I would like to know what your response to that is, first of all.

[197] **Mr Mason:** All companies can become more efficient. The number that you quoted would be the savings that the company has made across its entire operational base. What we are talking about in terms of retail is simply the costs of providing retail. We started to disaggregate the costs from start to finish only three to four years ago, so from the raw water or abstraction end up to the retail end and then the reverse of taking it away and putting it back into the rivers. We tried to do what we call separated accounts so that we were able to see the costs of the various business activities, of which retail is one. So, I think the figure of £2 billion is all the efficiency savings that have been taken out. There will be similarly large numbers across all the companies, because, as I said, the regulatory framework—since privatisation, companies have become a lot more efficient than they were in 1989 and 1990. It is only recently that we have been able to look at what the particular costs are for particular activities. The savings that we were talking about in relation to retail competition come only in relation to those costs at the retail end, which are probably of the order of 5% to 10% of total costs. So, you would never get anything like a £2 billion saving in retail, because I cannot imagine that total retail costs are very much more than £1 billion to £1.5 billion.

[198] **Llyr Huws Gruffydd:** Onid yw hynny'n dangos bod lle i gyflawni arbedion mewn dulliau amgen i'r bwriad neu awgrym o symud i gyflwyno cystadleuaeth? Onid yw'n dangos bod rhagor o le i wireddu arbedion?

Llyr Huws Gruffydd: Does that not demonstrate that there is scope to achieve savings in alternative ways to the intention or suggestion to move towards introducing competition? It surely proves that there is more scope to achieve savings.

[199] **Mr Mason:** The retail part is the first part where competition might come in in England. The rest of the value chain, as we call it, would remain regulated, and we would still look to set targets for efficiency to continue to try to improve or reduce the costs that customers bear and, hence, to reduce bills. However, they will remain monopoly parts, to the extent to which you could introduce market mechanisms in the upstream part—that would contribute. We must carry on setting price controls, including efficiency targets for companies so that they become more efficient. It would be hopeless to have retail with, compared with the total cost base, relatively small savings, when the monopoly part was allowed to increase its costs without restraint. So, we will continue to regulate the vast majority of the costs of all water companies, including Dŵr Cymru and Dee Valley Water.

[200] **Llyr Huws Gruffydd:** Diolch am hynny. Yn eich papur, rydych yn dweud, pe baem yn symud i sefyllfa lle'r oedd cystadleuaeth yn Lloegr ond nid yng

Llyr Huws Gruffydd: Thank you for that. In your paper, you state that, if we were to move to a situation in which there was competition in England, but not in Wales,

Nghymru,

[201] ‘er mwyn sicrhau bod cwmnïau yng Nghymru yn parhau i wella mewn modd sy’n gymharus â chwmnïau Lloegr mae’n debygol y bydd angen i ni gasglu mwy o dystiolaeth gan Dŵr Cymru a Dyffryn Dyfrdwy er mwyn sicrhau y gallem eu cymharu gyda’r cwmnïau sy’n perfformio orau yn y farchnad gystadleuol yn Lloegr.’

‘to ensure that Welsh companies continue to improve in a way that is comparable to the English companies it is likely that we would need to collect more information from Dŵr Cymru and Dee Valley to ensure we could compare them with the best performing companies in the competitive market in England.’

[202] Pa griteria a ydych yn eu defnyddio ar gyfer penderfynu pa gwmnïau sy’n perfformio orau? A allwch chi roi blas i ni o ba elfennau rydych yn eu hystyried?

What criteria are you using to decide which are the best performing companies? Can you give us a flavour of the criteria that you take into account?

[203] **Mr Mason:** At the moment, we use something called the service incentive mechanism—SIM—there are a lot of acronyms in the water industry. That is used across all customers, including business customers. If there was not to be a choice for business customers, so you decided in Wales that competition would not be introduced for business customers, we think that we would have to continue to have perhaps something similar to the service incentive mechanism, perhaps adapted for the needs of business customers as opposed to the needs simply of domestic customers. In England, if there was a potential market for retail, we would not have to have this mechanism for business customers. We think that it is that sort of thing that we would have to continue to have to protect those business customers in Wales that, perhaps, would not have a choice.

[204] **Llyr Huws Gruffydd:** Felly, yr hyn yr ydych yn ei ddweud yw nad ydych yn credu eich bod yn cymharu tebyg wrth debyg. Hynny yw, rydych yn derbyn, felly, nad oes modd cymharu yn uniongyrchol y cwmnïau yng Nghymru gyda’r cwmnïau yn Lloegr i allu mesur pwy sy’n perfformio orau.

Llyr Huws Gruffydd: So, what you are saying is that you do not believe that you are comparing like with like. That is, you accept, therefore, that there is no possible direct comparison between companies in Wales and companies in England in order to assess which is performing most effectively.

[205] **Mr Mason:** Yes, you are right to say that there would not be a direct comparison, because, clearly, there may be no choice for business customers in Wales. What we are saying is that you will perhaps be able to see what might be available, or the benefits that have been accrued to English customers, perhaps, compared with what might have been available to Welsh customers. I think it is only in terms of the regulatory part that we would have to continue to regulate differently business customers in Wales.

[206] **Llyr Huws Gruffydd:** Fodd bynnag, pan rydych yn son am fanteision i gwsmeriaid, beth yw’r rhain? Er enghraifft, mae cost yn un peth ac effeithlonrwydd yn beth arall; beth yw rhai o’r ffactorau sy’n cyfrannu at y manteision hynny?

Llyr Huws Gruffydd: However, when you talk about benefits for customers, what are you talking about? For example, cost is one thing and efficiency is another; what are some of the factors that contribute to those benefits?

[207] **Mr Mason:** It is efficiency, it is costs and it is price. So, we would have to make sure that, in much the same way as for domestic customers, we continued to regulate non-domestic and business customers in Wales, whereas we would not have to do that quite so much in England because the market mechanisms would take care of that for us, because they would always have the choice of going to another supplier.

[208] **Llyr Huws Gruffydd:** Yr hyn yr wyf am wybod yw: a ydy ffactorau fel dyledion gwael neu foddhad cwsmeriaid, ac yn y blaen, yn rhai o'r ffactorau yr ydych yn eu hystyried, neu a ydych yn edrych ar gost yn flaenaf ac yna pethau fel effeithlonrwydd, ac yn y blaen, hefyd?

Llyr Huws Gruffydd: What I would like to know is: are factors such as bad debt or customer satisfaction, and so on, some of the factors that you consider, or are you looking mainly at cost and then issues such as efficiency, and so on, as well?

[209] **Mr Mason:** Part of the service incentive mechanism looks at customer satisfaction. So, one of the factors within that measure is customer satisfaction. As I have said, if we had an adapted version of that for business customers, clearly the satisfaction of business customers would be a major element of that. Bad debt is itself a cost. So, in terms of the efficiency and continually trying to improve efficiency for business customers in Wales, bad debt would be part of that factor, yes.

[210] **Keith Davies:** Gadeirydd—

Keith Davies: Chair—

[211] **Yr Arglwydd Elis-Thomas:** Rwy'n dod atat ti; ti sydd nesaf.

Lord Elis-Thomas: I am coming to you; you are next.

[212] You see how anxious my colleagues are to question you. Keith Davies, then Antoinette and David.

[213] **Keith Davies:** Hoffwn ddilyn ymlaen o'r hyn yr oedd Llyr yn ei ofyn. O ran dyled, edrychais ar y graff yn ffigur 1 ac arno mae tri chwmmi sy'n waeth na Dŵr Cymru, ond mae hynny'n wir am y dreth gyngor ym mhob awdurdod, ac rydym yn wahanol, fel y dywedodd y Cadeirydd ar y cychwyn. Rwyf wedi edrych ar eich casgliad, a'r unig beth sydd gennych yn erbyn y syniad ein bod yn gwneud pethau yn ein ffordd ni yw y byddai'n rhaid ichi ei reoleiddio yn wahanol ac y byddai costau rheoleiddio. Faint byddai hynny? A fyddent yn sylweddol? Fel y dywedodd Llyr yn gynharach, mae Dŵr Cymru wedi gwneud elw o £2 biliwn dros 12 mlynedd, sydd lawer yn fwy na'r ffigurau eraill sydd gennych yn y papur. Felly, os oes rhaid inni newid y rheolau rheoleiddio, beth yw'r gost ychwanegol i ni yng Nghymru?

Keith Davies: I would like to follow on from what Llyr was asking about. With regard to debt, I looked at the graph in figure 1 and on it there are three companies that are worse than Dŵr Cymru, but that is true of the council tax in every authority, and we are different, as the Chair said at the beginning. I have looked at your conclusion, and the only thing that you have against the fact that we do things in our own way is that you would have to regulate it differently and that there would be regulatory costs. How much would those costs be? Would there be substantial costs? As Llyr said earlier, Dŵr Cymru has made a £2 billion profit over 12 years, which is significantly more than the other figures that you have in the paper. So, if we have to change the regulation rules, what is the additional cost to us in Wales?

[214] **Mr Mason:** I do not think, at this stage, that I can necessarily quantify what they are. All I am saying is that, if there were different regimes in England and Wales, we would adapt our regulatory approach to accommodate each of those particular systems. It is the fact that there may be a different regulatory burden on the Welsh companies compared with the English companies. That is, as you say, a cost. I could perhaps have a go at estimating it for you and come back to you. I would not necessarily say that it is going to be enormous, because our costs are not enormous. I think what we do here is that the companies themselves quite often complain about what they term 'the regulatory burden'. The fact that they are monopolies means that they do face a regulatory burden. What we are saying is, where you can get more market mechanisms and more competition, that regulatory burden could be lifted slightly. If there was a regime where there was less competition in Wales, that

regulatory burden perhaps could not be lifted.

[215] **Keith Davies:** Y cwestiwn arall sydd gennyf—yr ail gwestiwn, mewn ffordd—yw yngylch y ffaith nid wyf, wedi darllen eich papur, yn gallu gweld ei bod yn dweud unrhyw beth am lifogydd. Yn fy ardal i er enghraifft, mae Dŵr Cymru yn gwario £15 miliwn ar wella'r sefyllfa. Rydym wedi cael llifogydd yn Ngheredigion ac yn y gogledd ac yn y blaen, ac mae'r cwmnïau dŵr yn gweithio yno. O dan y system newydd, a fydd gan y cwmnïau dŵr yr un cyfrifoldeb, neu a fydd hynny'n newid?

Keith Davies: The second question I have—my second question, in a way—is about the fact that, having read your paper, I cannot see that it says anything about floods. In my area for example, Dŵr Cymru is spending £15 million on improving the situation. We have had floods in Ceredigion and in north Wales and so on, and the water companies are working there. Under the new system, will the water companies have the same responsibilities, or will that change?

[216] **Mr Mason:** I do not think any of the market mechanisms described in what the UK Government is looking to do would impact directly on floods. That would remain a responsibility—it is a joint responsibility, in a way—between the sewerage companies, the Environment Agency and, generally, the local authorities. I do not believe that would change at all.

[217] **Antoinette Sandbach:** Can you tell us what lessons Ofwat has learned from the case that Albion Water brought against Dŵr Cymru? You spoke earlier about your competition powers, but was this case brought by you? Who brought the case? It was decided by the competition appeal tribunal and £2 million-worth of damages were awarded against Welsh Water.

[218] **Mr Mason:** That is a case that has gone on for quite a long time and there have been several separate cases. Broadly, the complainant has been the person who has come to us. Under Competition Act 1998 rules, someone who feels that the competition has acted wrongly against them, in either what is called 'margin squeeze' or dominance, can say, 'We've been treated unfairly; would you look at our particular case?' So, Albion Water, which is the complainant in this case, has brought forward a number of areas where it feels that it has not been treated fairly by Welsh Water. In this last one, that was about damages, and, yes, the competition appeals tribunal ruled in favour of Albion and awarded £2 million in damages. As I said, that has been long-running, with slightly different cases over the course of about 10 years, but it was in relation to our last judgment in terms of what the costs of providing the service that Albion faced from Wales would be—its customer is Shotton Paper—that Albion sought damages from Welsh Water.

[219] **Antoinette Sandbach:** I understand the case, but what I wondered was what lessons Ofwat had learned. If you are thinking of opening up competition in the market, how does that case illustrate some of the potential pitfalls and what lessons have you learned from it?

[220] **Mr Mason:** I think that the key lesson is that the legislative framework is quite clear in the way that it operates and in the way that it expects the balance of costs to fall. The current legislation has not been most helpful to us and it has been left with great interpretation. We have to be clear that we are only operating within the legislative rules and they have been relatively restrictive. One of the things that we were looking to do with the UK Government—and it has said in the water White Paper that it would do this—is to look again at the key rules in terms of what is the price that the dominant incumbent should offer and at could there be a more flexible approach to how the costs involved in arriving at that price are dealt with. The one that we had at the time, I believe, was relatively restrictive.

11.15 a.m.

[221] **Antoinette Sandbach:** So, if Wales does not follow England's example—that is what we are taking evidence on—is there a potential that that regime may apply in England and not apply in Wales and that we still have the restrictive basis that you talk about that applied in this case as opposed to the more flexible model that you seek?

[222] **Mr Mason:** If there were different regimes operating in England and Wales, we would have to follow the particular regimes in the particular jurisdictions.

[223] **Antoinette Sandbach:** So, Welsh customers might, in those circumstances, be penalised for being physically operating in Wales, because their competitors over the border might have a more flexible regime.

[224] **Mr Mason:** We would just have to operate whatever regime we had in the area in which the complainant and incumbent was operating.

[225] **Lord Elis-Thomas:** I believe that it is called 'devolution'. [*Laughter.*]

[226] **David Rees:** Your paper focuses heavily on your very strong belief that market-driven competition is the way forward, but is that the only way to introduce efficiencies? I ask the question in relation to different forms of efficiency, because some of the efficiencies mentioned in your paper refer to operating-cost efficiencies as compared with usage efficiencies. Those are two different areas and we need to clarify the difference between the two. If it is the only way in which to introduce water-efficiency mechanisms, does that mean that Ofwat is finished and that there is nowhere else for you to go, because it should be your job to ensure those efficiencies?

[227] **Mr Mason:** We would say that market mechanisms are appropriate and they are a tool; I do not think that they are an end. The end is about getting best value for money for customers and the best service for customers while companies can continue to carry out their functions, including improving the environment. Market mechanisms may help that in that a regulatory framework can probably only be second best to a market, because we, as regulators, certainly do not know everything—companies have a much greater knowledge about their own costs. We can improve efficiency by setting targets, but how we set targets, to some extent, is dependent on the information that we have. What has been very successful—and I will not necessarily go into all of the economic terms—is the productive efficiency of doing the same thing, but doing it for a lower cost. We have seen a lot of that in the water sector, and that has been the main driver of the efficiencies that we have seen.

[228] Other types of efficiency include the allocation of resources to where they are best placed. There has been some of that, but perhaps less of it. There is then what is called 'dynamic efficiency', which comes from innovation and other areas. We have perhaps seen a little bit less of that because competition generally drives that along with the fear of losing a customer as people tend to innovate. It is about trying to capture all of those factors, but we are very clear that we moved to market mechanisms where you get those benefits. A huge proportion of the current costs of companies will remain a monopoly. It depends on how you cut these costs, but anything up to 90% of costs at the moment could remain regulated and a monopoly. So, it is about using the market mechanisms and competition where it is most appropriate to get a better deal for customers.

[229] **David Rees:** Earlier, you gave an example of a national company, highlighting one supplier rather than several that it deals with. We do not have a national grid in water, so there will clearly be different suppliers, rather than a biller, shall we say. Therefore, there will be a cost to that biller. Rather than a national organisation, the company that is supplying and delivering the bill will have to bear the cost of all of the administration to the other suppliers,

which will be a cost and burden on that company, thereby reducing its profitability or its ability to invest and reinvest in infrastructures. Will that really be efficient?

[230] **Mr Mason:** You might have a scenario of wholesalers and retailers, and the wholesaler will bill its retailer. It might produce just one bill for all the water that it sends to that retailer. It is then the retailer's job to bill its own customers for the water that they use. We are not saying that the water will be any different. You are right, there is not a national grid in water, and the customers will get the same water as it was supplied before, but the wholesaler will simply bill the retailer. That could be one bill, depending on how many retailers it deals with. There will probably be a reduced number of bills, but it will simply bill the retailer for the wholesale water that it sells to it.

[231] **David Rees:** Let us take Tata Steel as an example, because it is in my constituency, but it has sites across the UK. If it decides to go with one company and has one bill, and it chooses Welsh Water, for example, Welsh Water is then billed by all the companies from which it receives water to deliver to Tata at all of its locations. That would be the process, in reality. So, Welsh Water now bears the cost and burden of additional administration for doing all that and will, therefore, have less funding to invest, because it is bearing the cost of that administration.

[232] **Mr Mason:** You are right. Welsh Water might well decide that it is not really economic for it to want to participate in this market. This is where, perhaps, there is a gap, certainly from the UK Government point of view. There is no exit for people who do not want to be in retailing. Perhaps they think, 'We are much better as a water supplier—a wholesaler—and we would like to continue to just do that. We don't necessarily want to be a retailer, because we think that there are people who are more efficient, have better systems and are just better suited to that sort of activity.' The White Paper does not allow that. We pointed out to the UK Government that it is not very fair, if you are expecting to have a retail market, that you are not then giving a choice to the people who might have to participate in that market, whether they want to, or not. To use your analogy, could Welsh Water decide that it does not want to be a retailer, because it is too costly? Other people might say, 'We can do this much more cheaply', and will do so.

[233] **David Rees:** As a consequence, we do not know what the implications will be for those who can do it cheaper, in terms of the investment costs and where they put their money, as an investment infrastructure. One of the biggest problems that we have, let us be honest, is the fact that our infrastructure needs a large investment. That is where some of our efficiencies will also be gained in better usage of the water, rather than seeing it disappear.

[234] **Mr Mason:** That will still continue. Moody's, the credit rating agency, has looked at the implications for companies, of having a retail market. It included Welsh Water in that analysis and concluded that its credit rating—its financial health and its ability to borrow from debt markets—would be unimpaired by the introduction of a retail market.

[235] **David Rees:** I have a couple more short questions. You have obviously looked at utilities in other areas; do you foresee a similar process happening if this Bill comes through, where market forces work initially, but we end up with cartels, effectively? Are we, therefore, heading in the same direction if we go down the line of opening the markets up? Will we end up with a cartel of some major companies and not see any real dramatic difference in prices?

[236] **Mr Mason:** We would want to learn from history, and there are powers to deal with cartels. As I said in answer to a previous question, I do not think that the way in which the energy market has developed will necessarily be the same for water—primarily because it is solely aimed at business customers. However, you are right to say that you do not know where you will end up with these things. In hindsight, if you have a cartel, that is not a good

place to end up.

[237] **David Rees:** I want to move on to another area, which is the upstream side of things. You mention in your evidence that

[238] ‘with a greater choice of sources of water, companies will be able to choose the cheapest sources (keeping bills down) and those that are the most environmentally sustainable’.

[239] Are they compatible with one another? The cheapest tend to be the ones that are less environmentally sustainable.

[240] **Mr Mason:** It depends on what costs you are including when you look at what is cheapest. In terms of trying to make sure that the environment is protected, one of the incentives that we want to build into our general regulatory framework is one that protects the most environmentally sensitive sources. So, when you look at how much it costs to abstract from those sources, you would have a scarcity value attached to the ones that are the most sensitive. It very much depends on what your analysis of cost is. However, we would think that that would have to include a charge, whether that was notional or not, for scarcity value.

[241] **David Rees:** Welsh Water informed us that it had the licences for sufficient water for what it needs to deliver and, therefore, environmentally, there would be no need for any further sources of water in Wales. On an environmental basis, the Bill does not help us, because it would open it up and create more problems for us, because people might drill all over the place.

[242] **Mr Mason:** It is also very much tied up with abstraction rights. I do not think that people will necessarily drill all over, because they would have to have the rights to abstract. However, it is trying to look for areas of surplus or organisations that have abstraction rights that they do not necessarily use, which may or may not be Welsh Water, so that they can be used in an area that is more water-scarce. As I said earlier, water from Wales will not necessarily turn up in Kent; it is likely to work very incrementally. There are examples in papers that we have produced before, where simply because of the geography and the political history, there are areas where the costs of water in adjoining areas are very different and they would improve overall—I come back to allocation of resources—were that one area to sell its water to the next area.

[243] **David Rees:** Do we have sufficient infrastructure to transport that water from one area to the next area?

[244] **Mr Mason:** As I said, there is no national grid for water, so you would have to take account of the costs of transport, which is why it is likely to be incremental and in adjoining areas. The economic cost of transporting water, because water is incredibly heavy, is likely to make it not worthwhile.

[245] **David Rees:** Have any of those expected costs been produced so that we have figures for that?

[246] **Mr Mason:** Yes, there are figures. I can send you a paper that we have prepared, but the impact assessment takes into account where things are transported. So, the £2 billion figure and the £87 million figure that we have for Wales would take that into account. The £87 million figure is an apportionment, and I could not say exactly where it is in relation to water resources in Wales. However, across England and Wales, that £2 billion figure takes into account the cost of transporting water, where it needs to be transported.

[247] **David Rees:** So, it is transporting water out of Wales to other areas, for us.

[248] **Mr Mason:** If that is where it was and if that is where it was needed.

[249] **Lord Elis-Thomas:** I call on William Powell and then I believe that we go full circle with Mr Antoniwi afterwards.

[250] **William Powell:** Good morning, Mr Mason. I would like to return to the issue of metering, which we were discussing a little earlier, and you were quite a lot warmer in your comments about water metering than either Dŵr Cymru or Severn Trent. In fact, that was one of the issues on which they had the most unified voice when we heard from them a few weeks ago. What would you say in response to the suggestion that they both came up with, namely that education is a better, more effective way of driving down inefficiencies than metering, particularly given their view that, overall, it would add more to the net cost than adopting another approach?

[251] **Mr Mason:** I do not think that we should stop approaches that encourage efficiency. So, education about how you can save water is still important, and that remains the case whether someone is metered or not. However, measuring consumption and knowing how much you use enables people to make decisions, and both domestic customers and the company have greater knowledge of consumption, because at the moment they rely quite a lot on estimates.

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[252] So, if someone is unmetered, they have to estimate how much water their unmeasured stock is using. If you do not know exactly how much you are using, it is much more difficult to take decisions about where you need to take water from and how you might use it. So, it has to be a combination of things, but metering is the best option overall. However, I agree that there are costs associated with that.

[253] In an area where you may be blessed with more water than you need—Welsh Water believes that that is broadly the case here—that may be true now, but it may not necessarily be true in the future. I still believe that metering is the best way of measuring consumption. It is a very effective way of driving efficiency, but it has to be balanced against cost and affordability. In areas where consumers have chosen metering much more extensively—some areas have chosen close to 100% metering; I am thinking of the areas of Southern Water and South East Water as two examples—they have done that hand in hand with a very significant programme of education and of trying to identify people who are more vulnerable or on low income, and suggesting wider ways of being more efficient with water, with better tariffs for them to be on.

[254] Another feature of meters is that you can offer a much wider variety of tariffs to people, and with meters, for example smart meters, you can measure consumption at different times. You could perhaps then have different rates at different times. That is all for the future. However, you do not get any of that if you do not have a meter policy.

[255] **William Powell:** Thank you very much for expanding on your earlier answer. One of the things that Dŵr Cymru spoke of was the advantages that it derived from working with registered social landlords to undertake some of the education and debt management issues that arose. You commented earlier on some limitations within the remit of Ofwat, particularly in terms of issues that involve cross-subsidy. Is Ofwat's current remit strong enough, particularly in the household sector, in terms of financially disadvantaged customers?

[256] **Mr Mason:** Could you elaborate a little more in terms of what is 'strong enough' and

in relation to what?

[257] **William Powell:** In relation to protecting the interests of financially vulnerable customers.

[258] **Mr Mason:** We have a secondary duty in relation to vulnerable customers, where we look to see that companies take that into account when preparing their charges and tariffs. Our remit would go beyond what we thought was proper if we started to say, 'We believe this new cross-subsidy is the right way to go', because we feel that that is part of social policy. That is not something that a regulator should do, because we are not elected and we are not a political body. It is a matter for a politically elected Government to decide where it wants to go on this. We were looking for clearer rules on where the elected body felt that this part of social policy should be done in relation to water. England has issued rules on social tariffs, and the Welsh Government has recently issued its policy on social tariffs. That has been very helpful.

[259] **William Powell:** Has Ofwat actively engaged with Welsh Government on those social tariff guidelines?

[260] **Mr Mason:** Yes. We provided quite a lot of evidence on what an appropriate package would be. We provided quite a lot of evidence on income distribution in Wales and how the use of water might affect it. We did that in England and Wales. We sent a package of figures and a paper to the Welsh Government at the back end of 2011 to show how this might look.

[261] **William Powell:** Is that part of an ongoing dialogue with the Welsh Government on this policy area?

[262] **Mr Mason:** It is now. We were waiting to see the policy on social tariffs when it came out. That is now out, and we will be happy to implement that. It is effective from the next charging year, so it is not coming in in the current year that we are just about in, namely 2013-14, but in 2014, I believe. We are happy to work with Welsh Water and Dee Valley Water on any social tariffs that they might propose.

[263] **William Powell:** Thank you. Finally from me, could you provide a brief update to the committee on what Ofwat is doing in terms of the forthcoming 2014 price review?

[264] **Mr Mason:** Oh, right; how brief would you like it? [*Laughter.*]

[265] **Lord Elis-Thomas:** There we are: I have a gift already in this document.

[266] **Mr Mason:** We are well into that now. We put out a methodology document for consultation on how we might approach that. We did that in January. That consultation closed towards the end of March. We put out a document—the Chairman has a copy there—last week on the planning processes. That is, what information we might want from companies in order to do that methodology. The next stage is that we are now looking to have business plans from companies towards the beginning of December this year, and then the price-setting round takes place over 2014. So, there will be draft determinations in the middle of 2014, and then final determinations towards the end of 2014. It will be implemented from 1 April 2015. So, it is a two-year-ish process, because we will have done a lot of work behind the scenes before that. However, the gun went off in early January with our consultation paper. That is well up and running now.

[267] Part of what we have introduced is what we call customer challenge groups to try to improve the companies' engagement with their customers. I think that Welsh Water has taken that up well, as has Dee Valley Water. Welsh Water has used the Welsh Water forum as part of that engagement, which it has had for quite a long time in terms of price reviews. It is well

under way, I think. I could talk for another couple of hours on that, but you probably do not want me to.

[268] **Lord Elis-Thomas:** You have given us more than an hour already, for which we are grateful. David is next, and then Mick will round things off.

[269] **David Rees:** This is a very short one. I have been listening and thinking. You clearly believe that this section is about competition and market-driven forces. This current Bill is focusing on the non-domestic users and therefore looking at how we drive the economy, to an extent, to help businesses and that side of things. Is it Ofwat's view that, in fact, in the longer term, this market-driven approach should also be transferred to households and domestic users?

[270] **Mr Mason:** At the moment, it would not be for us to make a decision in any event; it is a Government decision.

[271] **David Rees:** It was a view that I asked for, not a decision.

[272] **Mr Mason:** Yes. At the moment, it does not seem to be right for domestic customers. It could only be sensible to see how it works for business customers, because people have already pointed out some of the pitfalls. They have pointed out where the energy market has perhaps gone. You would need to see how it works and then think about whether there is a lot of benefit in doing this and whether it would be right for household customers to participate. Business customers are one thing; including household customers would be a much larger step. So, we are certainly not at the moment thinking about that sort of thing.

[273] **Mick Antoniw:** I have just two questions in the very limited time that I have. On page 4 of your report, you say that the

[274] 'draft Water Bill will ensure that all water resources can be considered as part of a long-term approach to delivering resilience and ensuring the most efficient use of water in England.'

[275] Does that not really sum up the problem with the position that you are in as a regulator, and with the Bill itself? It is a Bill that has been designed effectively to put forward certain proposals with regard to England, and the specific circumstances of Wales are not specifically or separately considered. We are, effectively, an add-on to what is a UK Government proposal for England.

[276] **Mr Mason:** No. As I think we said in the evidence, we will work with whatever the policies are in the jurisdictions where the companies reside. So, if the Welsh Government decides to do something different, we will adapt our regime to accommodate whatever is decided by the Welsh Government in Wales.

[277] **Mick Antoniw:** Okay. I am very pleased to hear that.

[278] My final question has two parts. All these public opinion surveys that have been produced—well, nearly all—in respect of public utilities that have been privatised and have seen competition introduced, have indicated high levels of public dissatisfaction, a feeling of a lack of understanding, and a feeling of confusion, exploitation, disempowerment, and so on. Is there any reason whatsoever to believe that, if this were introduced in Wales, it would be any different?

[279] **Mr Mason:** Again, you need to look at exactly what questions were asked, and of whom. It would only be in respect of non-household customers. Surveys have been done—

when you had Tony Smith and Diane McCrea here from the Consumer Council for Water they talked about the surveys that they had run, and they found that business customers were, by a large majority, in favour of having competition, particularly on the retail side. They have asked customers in Wales as well, and so I think the same applies for Welsh business customers.

[280] **Mick Antoniw:** That was very much an in-principle thing; I got the ‘Do you want more doctors and nurses?’ example. This is my final question, Chair, and I appreciate your indulgence on this: apart from Scotland—and I think it has already come out in evidence that there are some considerable distinctions between Scotland and Wales—do you know of any other country in the world that has introduced competition in the water supply?

[281] **Mr Mason:** There are examples in different areas. In Australia there is definitely competition in terms of water supply, and that is more at the upstream part. In America, again, there are a number of cases where there has been competition in upstream parts, where there is a market for abstraction rights, and that works reasonably well. Certainly in terms of the retail part in water, Scotland is probably the only reasonable example.

[282] **Lord Elis-Thomas:** Thank you very much for giving us almost an hour and a half of your time. We are very grateful. There may be issues as we deliberate—and, as you see, there is more than one view in this committee; although as I said to you privately before you joined us, I have a clear view of these matters because of the background I come from, but of course when I sit here I am a totally impartial and fair Chair. Diolch yn fawr.

11.42 a.m.

Papurau i’w Nodi Papers to Note

[283] **Yr Arglwydd Elis-Thomas:** Trown yn awr i drafod yn fewnol ein rhaglen waith ar gyfer y dyfodol yn arbennig. Cyn gwneud hynny, mae papurau i’w nodi, sef cofnodion y cyfarfodydd ar 7, 13 a 21 Mawrth; llythyr gan y Gweinidog Cyfoeth Naturiol a Bwyd yn codi o’r cyfarfod ar 21 Chwefror; a nodiadau o gyfarfod ar ein hymchwiliad i bolisi dŵr gyda BAE Systems. Rydym yn nodi y rheiny, felly.

Lord Elis-Thomas: We will now move into private session to discuss our forward work programme in particular. However, before doing so, there are papers to note: the minutes of the meetings on 7, 13 a 21 March; a letter from the Minister for Natural Resources and Food, arising from the meeting on 21 February; and notes of a meeting with BAE Systems as part of our inquiry into water policy. We note those papers.

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

[284] **Yr Arglwydd Elis-Thomas:** **Lord Elis-Thomas:** I move that
Cynigiad fod

y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog Rhif 17.42(vi). *the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).*

[285] Gwelaf fod y pwyllgor yn gytûn. I see that there is no objection.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 11.42 a.m.
The public part of the meeting ended at 11.42 a.m.