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The Rt Hon Mr Alistair Carmichael MP
Chair, Environment, Food and Rural Affairs Committee
House of Commons
London
SW1A 0AA
By email: efracom@parliament.uk

2nd June 2025

Dear Chair,

Further to your recent letter dated 13th May requesting further information on different aspects of our work and governance arrangements, please see below some additional information which I hope will inform the work of the Committee.

Remuneration models and dividend policies

The Remuneration Committee consists of 4 independent non-executive directors, currently including the company Chair. Members of the Committee are appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chair of the Committee.

It is the responsibility of our Nominations Committee as with all our committees to ensure:

- the Committee has the necessary skills, background, and experience to enable the Group to meet its current and future strategic objectives;
- the composition of the Committees is regularly reviewed in the context of rotation, the Company's strategy and activities, its diversity objectives, and the Board's Terms of Reference; and
- there are plans for orderly succession to positions on the Committee.

As confirmed in your letter we have previously provided full details of our Remuneration Policy and variable pay schemes and as instructed we have not provided this information again, but a summary of our variable remuneration schemes is detailed below:

Annual Variable Pay

- Opportunity: Maximum AVP potential of 100% of salary, for the achievement of stretching performance targets.
- Performance Metrics: Measures are selected by the Committee each year with at least 80% of the award based on Customer and Operational measures aligned to regulatory measures contained within our Business Plan.

Long Term Variable Pay

- Opportunity: The maximum potential award for the Chief Executive is 500% of salary over the 5-year regulatory period (to a maximum potential award of 100% per annum). For other Executive Directors, the maximum potential award is 300% of salary over the 5-year regulatory period (to a maximum potential award of 60% per annum).
- Performance Metrics: Unless the Remuneration Committee determines otherwise, 50% based on Totex performance and 50% based on a range of performance development measures relevant to achieving the Company's long-term goals and aligned to regulatory measures contained within our Business Plan.

Our Remuneration Policy has not materially changed over the last five years as it was aligned to the five-year AMP7 period. However, as per UK Corporate Governance it was last approved by the Glas Members at the AGM held on 7 July 2023.

We are currently revising our Remuneration Policy in line with start of AMP8 and will present it to our members in July for them to vote on. Once our Policy for AMP8 has received approval, we will be happy to provide you with the details.

Legal and advertising fees

We have interpreted this request in relation to legal fees incurred as relating to action we have initiated (e.g., as a claimant or applicant) and can confirm there that we have not incurred any such fees.

In terms of advertising fees, it is important for us to invest in behavioural change campaigns because sustainable water and environment management depends not only on infrastructure but also on how people use our water and wastewater services. By encouraging responsible habits—such as reducing wastage, disposing only what is permissible in the toilet, fixing leaks, using water-efficient appliances, taking steps to lag pipes to avoid water pipes from freezing—these campaigns help us undertake our core services. This also reduces operational and environmental costs for the company (e.g. clearing 2000 blockages a month costs us £7 million a year and these blockages are largely caused by items flushed down toilets and sinks that shouldn't be such as wet wipes, fat, oil and grease). It should also be noted that we are required to undertake specific communication activity during sensitive periods (e.g. when water companies are managing drought conditions) as this is agreed with Government and relevant regulators and stipulated in our Drought Plan. Moreover, promoting awareness and accountability strengthens public trust and cooperation, which are essential for long-term water security and regulatory compliance. Investing in behavioural change is, therefore, a proactive and cost-effective strategy that complements technical solutions in ensuring a resilient and sustainable water supply.

Campaign	Description	2020	2021	2022	2023	2024	2025
Let's Stop the Block	This behavioural change campaign encourages customers not use their toilets as bins, helping us to reduce blockages, particularly caused by wet wipes. Typically this campaign has run in two bursts - in the Spring and Autumn.	£120,000.00	£166,000.00	£131,421.00	£119,118.00	£40,000.00	
Water Efficiency	8	£120,067.96	£127,504.00	£267,834.00	£159,999.80	£180,000.00	
Winter campaign	The 'Wrap Up' campaign aims to prepare customers for the colder winter months when pipes are more likely to freeze and burst. This not only helps to alert customers to the problems we may encounter on our network and the lengths we go to to minimise disruption to water supplies, but also to help ensure that their own homes are protected. Typically this campaign starts in November and runs until February.	£84,996.90	£180,000.00	£165,950.00	£150,000.00	£122,303.51	
Reservoir Safety	This behavioural change campaign highlights the dangers associated with swimming in our reservoirs. On average, 40 people lose their lives each year to drowning in Wales so this campaign highlights the freezing temperatures, hidden machinery and remote locations which can be hazardous and encourages our customers to enjoy our reservoirs safely and only swim at our designated Visitor Centres.	£18,580.76	£20,000.00	£21,244.00	£18,120.00	£18,000.00	
Added for PCC summer	After restating our leakage figures for 2021/22, we agreed with Ofwat that we would upweight our behavioural change campaign to encourage customers to reduce their water consumption.						£205,576.00
Added for PCC winter							£186,229.00
		£343,645.62	£493,504.00	£586,449.00	£447,237.80	£360,303.51	£391,805.00

Replacement rates of assets

We acknowledge the committee's concern regarding the sufficiency of asset replacement rates across the sector. This is a critical issue, particularly in the context of maintaining long-term asset health, ensuring service resilience, and meeting the expectations of customers and regulators.

During AMP7, our mains renewal rate was 0.09%, reflecting a period where investment was primarily directed toward other priorities such as environmental compliance, leakage reduction, and customer service improvements. The forecast for 2024–25 indicates a higher replacement rate of 0.21%, which is a step change but still below long-term sustainable levels.

Treated water distribution – water mains analysis (km)

	2020-21	2021-22	2022-23	2023-24	2024-25
Total length of potable mains as at 31 March	27777.3	27832.4	27,875.3	27,910.2	27,975.9
Total length of potable mains renewed	39.4	19.8	28.4	15.2	57.9
Mains renewal (%)	0.14%	0.07%	0.10%	0.05%	0.21%

For AMP8, we are proposing a significant increase in mains renewal to 0.43%. This reflects a strategic shift in focus toward proactive asset management and long-term resilience.

	2025-26	2026-27	2027-28	2028-29	2029-30
Total length of potable mains as at 31 March	28,037.7	28,095.6	28,167.7	28,230.7	28,297.1
Total length of potable mains renewed	80.0	131.0	131.0	131.0	131.0
Mains renewal (%)	0.29%	0.47%	0.47%	0.46%	0.46%

The rationale for increasing replacement rates in AMP8 is grounded in several key factors:

- **Asset Health and Condition Data:** Our asset condition assessments, supported by improved data analytics and monitoring technologies, indicate that a growing proportion of our network is approaching or exceeding its design life. This is particularly true for asbestos cement mains (which we have a high proportion of), which are more prone to failure.
- **Risk-Based Prioritisation:** We have adopted a risk-based approach to asset management, which has highlighted the need for increased intervention to prevent service failures and mitigate long-term costs.
- **Customer and Regulatory Expectations:** There is increasing pressure to improve service reliability, reduce leakage, and enhance environmental performance. These outcomes are closely linked to the condition and performance of our underground assets.

The water sector faces several systemic challenges that impact replacement rates:

- **Aging Infrastructure:** Much of the UK's water infrastructure is over 70 years old, with some assets dating back over a century.
- **Funding Constraints:** Balancing affordability for customers with the need for increased investment remains a key challenge.
- **Data Gaps:** Despite improvements, there are still limitations in asset condition data, particularly for buried infrastructure, which can hinder optimal investment decisions.
- **Delivery Capacity:** Scaling up replacement programmes requires significant planning, supply chain coordination, and skilled workforce availability.

While the proposed AMP8 rate of 0.43% represents a substantial improvement, it is still below the level many experts consider necessary for long-term sustainability. Industry benchmarks often suggest that a mains renewal rate of 1% per annum is more appropriate to maintain a steady-state asset base over a 100-year lifecycle. However, we believe the AMP8 rate is a pragmatic and deliverable step forward, given current constraints. It reflects a balance between ambition and realism, and it lays the groundwork for further increases in future AMPs as data quality, delivery capability, and funding mechanisms improve.

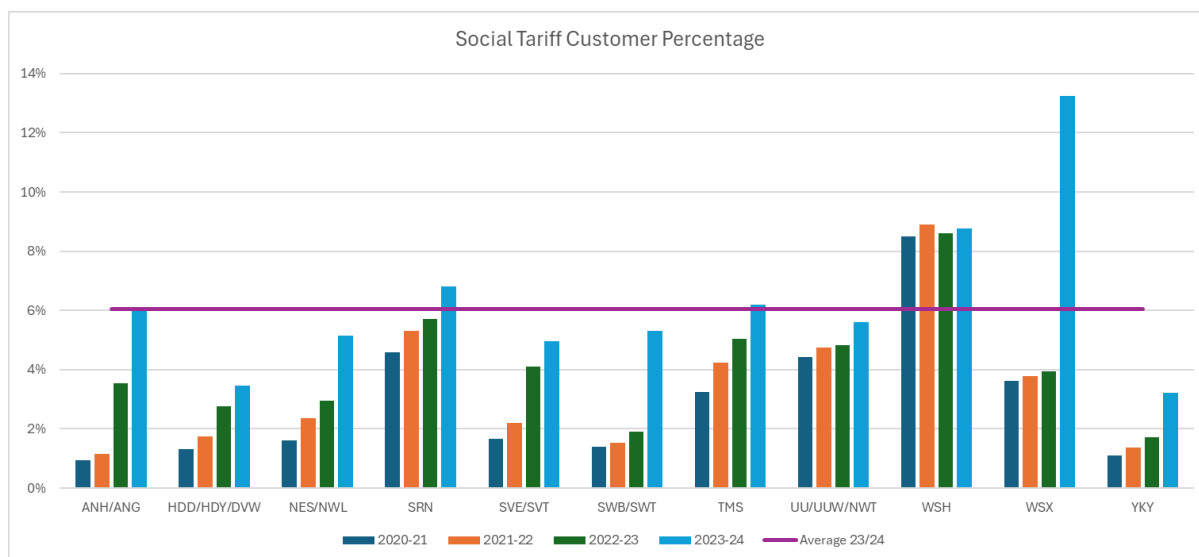
In summary, while the AMP7 replacement rate was insufficient to maintain long-term asset health, the proposed increase in AMP8 is a positive and necessary progression. It reflects a more proactive and data-informed approach to asset management and will require continued focus.

Tackling water poverty

Water poverty is defined as households who have a bill to income ratio of 5% or more. Water companies do not routinely capture this information, however as part of PR24 plans we were advised to use the research carried out by Frontier Economics as a basis for our calculations.

The Frontier Economics single social tariff report data from 2020/21 utilised as requested by Ofwat during PR24 planning, estimated that 12% (170,892) of our customer base met the definition of 'water poor' in a hypothetical world without social tariffs dropping down to 9.6% after social tariff support is applied. Frontier Economics data estimates that 36% of households eligible for social tariffs are in water poverty.

We offer a number of affordability support schemes aimed at those customers who find themselves in financial hardship and has consistently been the highest ranking in the industry for the percentage of customers, circa 9% - or 137,000 customers - supported via a social tariff. The level of the company contribution to social tariffs (and other affordability support) in our plans for 2025 to 2030 is £73 million, which is consistent with the level of support in 2020 to 2025 in real terms despite recent periods of high inflation. This funding is made possible by our not-for-shareholder model.



As well as social tariffs we also offer a number of other support measures including:

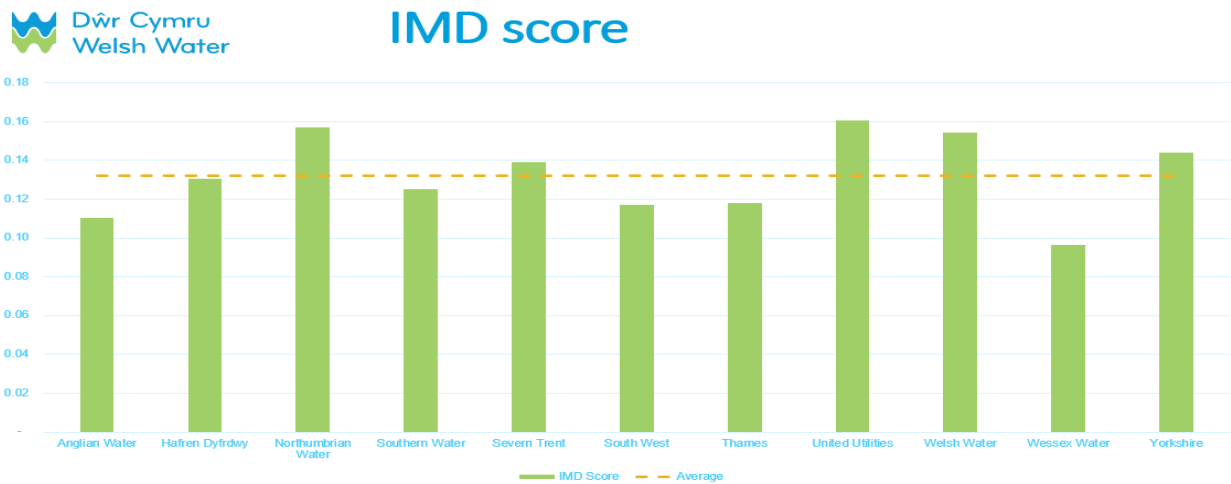
- working with the Department for Work and Pension so that customers receive an annual discount on their water bill by paying their charges via their benefits through the Department for Work and Pension (DWP) Direct Payment Scheme;
- Cymuned which is an innovative support method which offers short-term support to working households who find themselves in a situation where their bills exceed their income. Qualifying households may receive a three month charge-free period, currently equating to a discount of around £100-£120 on the average bill. Those who apply need to undergo an income assessment.

Another key support measure will be our progressive AMP8 metering strategy (as described in our draft Water Resources Management Plan). Our metering strategy will further help customers reduce bills through visibility of consumption, frequency of billing and water efficiency education.

There are significant pressures on households over the coming years driven by high levels of inflation and the increasing bills. Without support measures we estimate the percentage of households defined as ‘water poor’ would rise – however, due to the support measures described we will continue to support a wide range of households, ensuring we have capacity for those that may find themselves financially struggling or without employment.

As water poverty is complex and data availability has its limitations, we have recently moved to focus on income deprivation. Income deprivation is defined as households which have less than 60% of the median income. Through the use of external data sources overlaid with internal customer data we have worked to create a customer base model which seeks to provide insight into the local areas we serve and identify those most in need of support.

Wales has the third highest IMD score in the industry meaning we serve some of the most deprived areas.



The model takes data at postcode level which allows us to strategically plan targeted events with our specialist support team ensuring those customers who need it most are provided with support with their bills, whether that be advice and guidance or financial.

The model suggests that of the 1.3 million households we serve 16% would be classed as income deprived, the chart details areas in Wales where income deprivation is at its highest, there are five local authority areas (neath Port Talbot, Rhondda Cynon Taff, Blaenau Gwent, Caerphilly and Merthyr Tydfil where income deprivation is ranked in the upper quartile. Although these local authorities have come out with indices of high deprivation as a whole, there are areas which have small, localised pockets of severe income deprivation. Through detailed analysis of these areas, we will be able to support, plan and monitor our impacts which will support our AMP8 ambitions and limit the impact of increasing bills on water poverty.

Data transparency

Currently, data related to drinking water quality is sent to Drinking Water Inspectorate (DWI) on a periodic basis to ensure our compliance. For sharing more widely, Welsh Water are a supporter and an active participant in the Stream program for the publishing of Open Data and have already published seven different data sets to date. Domestic Water Quality is a priority item on our Open Data publishing roadmap, this will include location and measured levels of determinants (including those looked at by the DWI) for samples taken in 2022, 23 and 24. The data was captured from assessments performed at the customers tap and have been mapped to LSOAs (Lower layer Super Output Area).

The data will be made available via the Stream Open Data Portal, and we are aiming for the to publish this by the end of summer 2025. Our commitment is to then add the reports for additional years approximately 2 months after our annual regulatory reporting has been completed.

For water security, we have recently published our Raw Water Reservoir Storage Level data on the Stream Open Data Portal, with mapping data to enable it to be easily geographically presented. This data is related to 2023 figures and was first published in Feb 2025. The 2024 data will also be published, with a target of Sept 2025. By clicking this [link](#) you can see this data sets publication.

I hope this is useful but please let us know if you require any additional information.

Your sincerely,

A handwritten signature in black ink, appearing to read 'P. Perry', with a stylized, flowing script.

Peter Perry
Chief Executive, Dŵr Cymru Welsh Water