



www.waterwise.org.uk

180 Piccadilly
London W1J 9HF
0207 917 2826
info@waterwise.org.uk

10 April 2017

Water Services Team
waterservices@defra.gsi.gov.uk

Dear Sir or Madam,

Re: Consultation on The Government's strategic priorities and objectives for Ofwat

Waterwise is pleased to respond to Defra's consultation on the Government's strategic priorities and objectives for Ofwat. Waterwise was founded in 2005 and is the leading authority on water efficiency in the UK and Europe. We are an independent, not for profit organisation, receiving funding from supporters across and beyond the water sector and wider sponsorship and research projects. We like to be at the front, leading and supporting innovative efforts to realise our mission; that water will be used wisely, every day, everywhere.

Water efficiency is a key contributor to resilience, and water companies are currently carrying out large-scale retrofitting and customer engagement programmes. But water efficiency, scaled up even further, is also an invaluable tool in driving customer participation – as well as using water efficiency programmes to get customers to help deliver water savings, it can contribute to multi-layered relationships to help inform, track and improve customer service and outcomes across companies.

We know Ofwat is keen to see larger-scale water efficiency and we support your expectation that they "promote ambitious action to reduce leakage and per capita consumption". The key elements of our response include the need to explicitly support variable infrastructure charging schemes linked to water efficiency for new housing developments; to enable water companies to take risks by working in collaboration with others to achieve better outcomes on water efficiency; for wider policy changes to deliver extended and enhanced water efficiency scenarios; to audit the impact of retail competition on water efficiency services and how this might translate to residential retail competition; to consider the potential contribution of water efficiency in upstream competition; and for third party auditing of business plans and final PR19 determinations for progress on water efficiency.

Attached are our detailed responses to your consultation questions. We look forward to working closely with Defra, Ofwat and water companies to deliver water efficiency in PR19.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Aaron Burton". The signature is stylized and cursive.

Aaron Burton MCIWEM C.WEM CEnv CSci
Director of Projects and Programmes

Response to consultation questions

7. Has the government identified the most relevant strategic priorities for Ofwat?

Yes

However we propose under paragraph 8 that additional reference is made to the environment.

Ofwat should challenge the water sector to plan and invest to meet the needs of current and future customers *and the environment*, in a way that offers best value for money over the long term.

No

8. If not, please set out any strategic priorities you consider should feature.

9. Will the supporting objectives effectively underpin Ofwat's delivery of the strategic priorities?

Yes

No

10. If not, please identify any key objectives that could be strengthened or key objectives you consider to be missing.

Waterwise supports the strategic priorities for Ofwat as set out by Defra, for Ofwat to reflect in its work as it delivers against its duties. However, below we propose amendments and additional objectives that we believe will support a resilient water sector.

- We welcome the statement in Paragraph 9 on the need for “collaboration with other water companies, local authorities, and partners”. This is important in order to enable cost-effective large-scale water efficiency options. We suggest that this is made explicit in the guidance so that water companies can feel reassured when proposing collaborative schemes that these will be considered in the Ofwat framework in terms of the benefits they provide as well as the costs to customers.

- The draft SPS refers to the supply side issues and drought in Paragraph 11 and references the Water UK Long Term Planning Framework Report. The report also outlines extended water efficiency practices (smart metering, tariffs, retrofitting 65% of properties, new home standards 105 litres per head per day and reduced leakage through active leakage control and pressure management) as well as enhanced water efficiency (all new homes achieve 105 litres per head plus extensive retrofitting, large-scale mains replacement for leakage). And it highlights significant policy and regulatory support to achieve cost effectiveness to deliver the 'extended' demand management strategy. We believe this should be reflected in the SPS, for balance.
- Paragraph 14. We consider that the National Policy Statement (NPS) should not green-light planning consent for large supply-side schemes without significant scaling up of demand management – there is an opportunity for the government to develop a more holistic approach across the sector through the NPS, working with Water Resource Management Plans.
- In Paragraph 15 Defra asks Ofwat to “promote ambitious action to reduce leakage and per capita consumption, where this represents best value for money over the long term”. Ambitious actions that deliver value for money will also need greater collaboration between water companies and changes to government policies. This could be facilitated by the Water UK-sponsored Water Efficiency Strategy Steering Group, which includes Defra. The final Water Efficiency Strategy for the UK is due to be published by Waterwise in spring 2017 and the SPS could also reference this for Ofwat and water companies to consider.
- Paragraph 24. Water efficiency is a key tool to support water and wastewater systems providing wider benefits to the economy, society and the environment. Waterwise supports Defra’s inclusion of this in the 25-year environmental plan - and can help deliver it - and suggests it be explicitly included in this paragraph of the SPS.
- Paragraph 27 – Housing: We support the need for water companies to ensure a consistent level of service to new property developers to meet the needs of a growing population. However, there is also a need for property development to consider water and wastewater resilience.
 - We suggest that Defra explicitly state their support for Ofwat working with water companies to deliver rebates on infrastructure charges linked to water efficiency and integrated water management networks (e.g. water reuse). Several companies including Southern Water, Severn Trent Water and Anglian Water are taking these forward at the moment and they are consistent with the new charging rules context.
 - Waterwise is trialling this approach with Southern Water in Eastleigh. Developers in Eastleigh are being offered a 50% discount in their water infrastructure connection charge for new builds if they use fittings rated

A or B under the European Water Label. The discount is simple and easily verifiable and uses market incentives to reward developers for environmental improvements. It means that developers can improve environmental standards at no cost and with almost no administrative burden, householders get higher quality fittings and lower running costs and there are benefits to the aquatic environment and improved water security. The discount is funded by Southern Water but this should be offset by the water efficiency savings generated. This trial is a good example of public, private and third sector organisations working together to develop solutions that work for everyone – increasing resilience, supporting growth and protecting the environment.

- Paragraph 34. We support the focus on small business customers as vulnerable users of utilities and agree that Ofwat should be promoting the need for water efficiency services for these customers. This was one of the key outcomes of our recent Waterwise Retailers event held on 31 January.
- Paragraph 39. We believe Ofwat's monitoring of the retail market provides a seminal opportunity to audit the water efficiency services being delivered and the impact on water consumption across a range of sectors. Defra could provide guidance to Ofwat in relation to this. Waterwise is well placed to undertake this with partners including CCWater, and included this in our response to the Ofwat monitoring consultation.
- Paragraph 40. Water efficiency is a key element of household retail competition. Defra could suggest Ofwat work with Waterwise and others to understand how this could be delivered. The emerging findings on the costs and benefits of residential competition suggest that water efficiency could have a net benefit of between £98m and £398m. This along with the £177m potential metering benefit would make a large impact on the less innovative and competitive scenarios.
- Paragraph 43. Upstream competition as outlined in this paragraph should also include demand management services, as was highlighted in the Cave Review. Defra could give guidance to Ofwat around demand management as part of strengthening upstream competition. Where water companies are setting out for public procurement their requirements based on supply-demand deficit (i.e. requiring x Ml/d or resource), large-scale demand management services offered by new providers should be considered to meet this by reducing water use. Ofwat could consider how incentives on water companies could enable the supply chain to develop this way, and actively promote this as an option. Although this could happen under the current regulatory regime, Waterwise is unaware of any upstream competition bids based on demand management to date.

11. Do you consider that this statement to Ofwat is clear and easy to understand?

Yes
No

12. Please identify any areas that could be clarified.

13. How should we measure Ofwat's success in securing the government's strategic priorities and objectives?

We recognise that it is for Ofwat as an independent regulator to balance how it delivers against its duties and the SPS, but it's also important that Ofwat can and does demonstrate how it is doing this strategically across the suite of its work. We support the reporting packaging proposed which provides the flexibility for Ofwat to do this.

However, we also suggest a specific third party audit of water efficiency elements of business plans and/or the final determination, to show how Ofwat is delivering against the water efficiency wording in its resilience duty as well as the SPS priorities. This would help Ofwat further demonstrate how its PR19 methodology has built on the existing progress made to drive greater water efficiency in PR14 - through removing the regulatory capex bias, the revenue incentive mechanism, the move to outcomes and incentives around these.

As Ofwat is likely to be monitoring water consumption (per capita consumption) and setting outcome delivery incentives linked to this, we believe that Defra could also measure this.