

3 August 2017

Ofwat Charging
charging@ofwat.gsi.gov.uk

Dear Sir or Madam,

Re: Ofwat consultation: New Connections charges for the future - England

Waterwise is pleased to respond to Ofwat's consultation on new connection charges for the future in England. 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. We know Ofwat is keen to see larger-scale water efficiency and to ensure that regulation continues to support this. The Waterwise Water Efficiency Strategy for the UK sets out a range of actions to improve water efficiency in new developments. We have been working with several water companies to develop incentive schemes for new developments. These schemes would see incumbent water companies providing a discounted infrastructure charge if developers install water efficient fittings and appliances or consider third pipe water reuse networks.

The proposed changes around income offsets could reduce the ability of incumbent water companies to offer this incentive. We suggest this issue needs further consideration as these incentives provide a major opportunity for water companies to manage demand, without wider government regulation on building water efficiency standards,

Attached are our detailed responses to your consultation questions and we would welcome the opportunity to discuss these with you.

Yours sincerely,



Aaron Burton MCIWEM C.WEM CEnv CSci
Director of Policy and Innovation

Response to consultation questions

Q1 Do you agree that our Option 3 on the treatment of the income offset/asset payments, has merit? If not, please explain your reasoning and provide relevant evidence. If so, how and when should this change be brought about?

Q2 Do you agree with our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs? Is there anything we have missed?

A major element that has been missed by the draft impact assessment is the ability of incumbent water companies to use a discount on infrastructure charges to incentivise developers to install water efficient fittings and fixtures. This is a key action recommended by the [Waterwise Water Efficiency Strategy for the UK](#). Both Severn Trent and Southern Water have schemes live with developers and Anglian Water are currently developing theirs.

Although water-efficient fixtures and fittings are often no more expensive than inefficient products there is still a perception that they cost more for developers and affect marketability of homes. There is an opportunity to address this through an incentive related to the infrastructure charges posed by water companies on new developments (now possible due to the move to charging rules through the Water Act 2014, rather than Ofwat signing off all charges schemes). A variable infrastructure charge linked to the installation of labelled water efficient fittings and fixtures would incentivise greater water efficiency in new developments. Some water companies are taking forward such schemes. Part of the developer cost saving could be put towards a fund for water efficiency behaviour change in those homes or delivering wider water neutrality in the area. An example is provided in the box below:

Variable infrastructure charges

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 scheme 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 customers but 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.

Other water companies - such as Severn Trent Water and Anglian Water - are working on similar approaches for water efficiency or water reuse and there is an opportunity to share knowledge in this area.

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The proposed options using income offsets could reduce the ability of water companies to provide an incentive to developers for water efficiency. The Water UK Long term Water Resources Planning Framework Report ([Water UK, 2016](#)) outlines the importance of demand management in response to population growth, climate change and environmental pressures. With an estimated 225,000 to 275,000 new homes required annually to meet population growth and undersupply, if they aren't water efficient this could drive future water company and government costs. The extended and enhanced scenarios of the Water UK report both call for new build homes to meet a 105 litres per person per day standard. Incentives through developer charges is one mechanism to implement this.

Incentives through developer charges linked to water efficient devices can provide a simpler route to improving water efficiency standards than new regulation through building standards or planning requirements. The costs and benefits of changes to charging on this tool for water companies in managing demand should be assessed before changes are progressed. Impacts could be seen in water resources management plans and business plans.

Waterwise would welcome the opportunity to work with Ofwat, Water UK and water companies to determine these impacts and explore options that can still support markets and competition whilst enabling water companies to incentivise developers towards greater water efficiency.

Q3 Do you have any comments on the drafting of the possible future changes to our rules (set out in Appendices A3 and A4)?

Q4 Do you have any comments on our proposed licence modification to Condition C (Infrastructure Charges) for English water companies other than NAVs (including the proposed wording set out in Appendix A7)?