

# Future Water Efficiency Targets: A consultation

## About this consultation

This consultation describes our proposals for setting water efficiency targets from 2010-11 to 2014-15. It seeks views from the water industry, consumers and their representatives, and other stakeholders.

We invite comments on all aspects of our proposals, but have included some key questions which we would like stakeholders to address. Please support your comments with any evidence that you consider will be helpful to us. We will use these responses to inform our conclusions on water efficiency targets, which we will publish in autumn 2008.

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## **Responding to this consultation.**

Please send your responses to this consultation to Daryl Fossick by **12 September 2008**.

You can e-mail your responses to: [daryl.fossick@ofwat.gsi.gov.uk](mailto:daryl.fossick@ofwat.gsi.gov.uk) or post them to:

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## Executive summary

Since 1996, each water company in England and Wales has had a duty to promote the efficient use of water by its consumers under section 93A of the Water Industry Act 1991. We have used companies' annual June return submissions to check that they are complying with this duty.

In August 2007, we published the methodology by which we asked companies to set voluntary water efficiency targets for 2008-09 and 2009-10. At that time, we said that we would propose more refined targets as part of our final determination of price limits in 2009 (PR09). This consultation paper details our proposals for annual water efficiency targets for each water company from 2010-11 to 2014-15.

In formulating these proposals, we have worked closely with the Water Saving Group (WSG), the Environment Agency and a small group of water company representatives. The overarching goal of the Water Saving Group is to reduce the current level of per capita consumption in households. The proposed targets would help companies to play their part in achieving the Government's goal of reducing individual water usage to 130 litres per person per day from its current level of around 150 litres. If they remain in place until 2030, we expect the proposed targets to contribute at least half of the required savings.

The proposals that we have developed fall under two main headings: base service and the sustainable economic level of water efficiency (selwe).

We propose that each company has a minimum equivalent base service target in relation to the number of properties it serves.

Within this base service target, we propose three key strands:

- a minimum target for water saved through approved water efficiency activity in megalitres per day;
- a requirement to provide information to consumers on how to use water more wisely; and
- a requirement to take an active part in improving the evidence base for water efficiency.

We propose that each company should have an annual base service target of saving **one litre** of water per billed property per day through approved water efficiency activity. Companies should convert this into a target in megalitres

per day. We think that we should allow companies to meet this target through both household and non-household activity, and that the target should initially be in place for five years from 2010-11 to 2014-15. We will conduct a review of targets during this time.

We think that a target of one litre per property per day meets the WSG requirement that targets should prove stretching. The proposed minimum target saving of 23.3Ml/d across England and Wales would represent a 40% increase in the average amount of water saved through water efficiency activity by companies over the past three years, excluding supply pipe repairs and replacements. Some companies have reported savings of more than one litre per property per day during that time, and we would expect that to continue where companies plan to undertake additional water efficiency measures as part of their strategy to balance supply and demand.

The targets would help companies to play their part in achieving the Government's goal of reducing individual water usage to 130 litres per person per day from its current level of around 150 litres. If the proposed targets remain in place until 2030, we expect them to contribute at least half of the required savings.

The second element of the targets is the sustainable economic level of water efficiency. Under this heading, we invite companies to propose additional water efficiency activity, above the base level. This would form part of a sustainable, economic approach to balancing supply and demand.

We welcome your comments on the proposals contained within this document, and have included some key questions to which we would like stakeholders to respond. Beyond these key questions, we would welcome your comments on any other aspect of our proposals.

We will publish our conclusions on water efficiency targets in autumn 2008.

## 1. Background

In August 2007, we published the methodology by which we asked companies to set voluntary water efficiency targets for 2008-09 and 2009-10. At that time, we said that we would propose more refined targets at PR09.

Since proposing voluntary targets, we have worked closely with the Environment Agency and a small group of companies to develop ideas for future targets. We kept the WSG up to date as our thinking developed, and consulted the Group as we finalised our proposals. We understand that Water UK, as a member of the WSG, kept companies informed throughout this process. We took into account the WSG's view that targets must be stretching but achievable.

The proposed targets demonstrate the companies' contribution to the Government's ambition to see a 20 l/h/d reduction in per capita consumption by 2030 set out in, Future Water – The Government's Water Strategy for England on 7 February 2007. If the Government is to meet its ambition, it will require action by all stakeholders, and not just water companies.

Now that we have developed a more refined methodology, we will compare companies' water efficiency performance in 2007-08 and 2008-09 with the forthcoming AMP5 targets, and implement those targets on a trial basis in 2009-10. This will facilitate a smooth transition into reporting against the new targets in 2010-11 while continuing to focus all parties on the importance of water efficiency. It will replace the voluntary targets we set out last year.

## **2. Proposal**

We propose a two-tiered structure for the targets. The first tier would represent a minimum base level of water efficiency, which would be equivalent for all companies. The second tier would be a sustainable economic level of water efficiency (selwe), which would form part of a sustainable, economic approach to balancing supply and demand.

### **2.1 Base service**

Base service would comprise a number of key components. It is the minimum level of activity we would expect companies to undertake to promote water efficiency.

#### **2.1.1 Components of base service**

We would:

- propose for each company an equivalent target in megalitres per day relative to the number of properties served by the company;
- require each company to continue to provide information to consumers on how to be more water efficient; and
- require each company to contribute to improving the evidence base for water efficiency.

#### **2.1.2 Megalitres per day target**

We propose that each company should have an equal target of saving one litre of water per property per day through approved water efficiency activity, and that this target should initially be in place for five years from 2010-11 to 2014-15, during which time we will conduct a review of targets. Companies may meet this target through both household and non-household activity.

We think that a target of one litre per property per day meets the WSG requirement that targets should prove stretching but achievable. The proposed target would represent an a 40% increase in the average amount of water saved through water efficiency activity by the sector as a whole over the past three years, excluding supply pipe repairs and replacements. Some companies have reported savings of more than one litre per property per day during that time, and we would expect that to continue where companies plan

to undertake additional measures as part of their strategy to balance supply and demand.

We will use the total number of properties billed - household and non-household - reported by companies in table 7 of the June return 2008 as the multiplier. We will round targets to one decimal place, and fix them for each of the five years from 2010-11 to 2014-15.

Example: Anglian Water annual minimum base service water efficiency target 2010-11 to 2014-05.

Total households + total non-households x 1 litre per property

Annual target = 1,804,414 + 113,596 x 1 litre = 1.9 Mld

### **Megalitres per day target**

Do you think that it is correct to expect each company to meet an equivalent MI/d target to meet its statutory water efficiency duty?

Do you think that the base level target, at one litre per property per day, is at a level that is stretching, but fair and achievable? If not, at what level do you think the target should be, and why?

### **2.1.3 Meeting the target**

We propose to monitor performance annually within our June returns process, but to expect companies to meet their targets on a three-year rolling average basis. This would allow companies to schedule their water efficiency optimally, with larger programmes in some years.

We propose to assess performance against targets by multiplying the activities undertaken by companies by assumed yields. In appendix A, we provide a draft table of assumed savings and uptake rates to which each company should refer when devising its water efficiency programme, and when reporting its annual savings. Appendix A represents our current best estimate of savings and uptake rates, and defines the activities that we think companies should consider under base activity. We have based the table on information from the WSG's Evidence base for large-scale water efficiency interim report, June returns, and other information supplied directly by companies.

We will continue to work with companies and with other stakeholders during the consultation period to improve the volume and quality of data on which we will base assumed savings and uptake rates. We will publish a revised table with our conclusions on targets in autumn 2008.

If, after that date, companies present to us compelling evidence for different assumed savings, we will revise our assumptions as part of PR09. At that point, we will fix our assumptions about yields and uptake rates for the five years of the target. These assumptions will apply to all companies and, where relevant, to both base service and selwe.

#### **Meeting the target**

Is our proposal to assess performance on a three year rolling average basis the best way to assess companies' performance against water efficiency targets?

Is our proposal to fix targets, assumed yields, and uptake rates for the five years of the target the correct approach to take?

#### **2.1.4 Flexibility**

Although we set out a list of activities in appendix A which we would expect companies to consider as part of their base service, we propose to allow companies substantial flexibility in deciding how to meet their targets. We do not intend to restrict companies to meeting targets only from defined base activities. We think a flexible approach is appropriate because it is the companies who are best placed to decide how to meet their targets taking into account their own circumstances. In addition, technology and companies' own understanding of alternative approaches to water efficiency will continue to develop over time. This might make current base activities either redundant or less effective than other options.

Do you agree with our proposal to allow companies substantial flexibility in meeting targets?

We would nevertheless expect companies to meet targets through a range of activities, and not to rely on a single measure. We would also expect activities aimed at households to feature strongly, and we would not approve of plans to meet targets exclusively from non-household activity over the entire five-year target period. We think that companies should observe their duty to promote water efficiency for both households and non-households.

Companies' duty to promote water efficiency extends to household and non-household consumers. We therefore think that savings from both households and non-households should count towards targets.

1. Do you agree with our conclusion?

We also say that we would not approve of plans to meet targets exclusively from non-household activity.

1. Do you agree with our proposal not to approve of plans to make savings exclusively from non-household activity?
2. To ensure that companies cater for both households and non households in their plans, do you think that we should impose an upper limit on the contribution savings from household or non-households make to meeting targets?

### **2.1.5 Innovation**

We are conscious that the evidence base for water efficiency remains limited and that technological advances in water saving devices are likely to continue. In order to encourage companies to take an innovative approach to water efficiency, and to trial new equipment, we would allow companies that put forward such approaches to trade the assumed savings against their base service target.

We accept that the savings from this approach are more uncertain than those for existing activities and approaches, but we would expect companies to inform us of the savings that they expect to accrue, the basis for the assumption, and an indication of the cost. We would use this information to agree with the company an allowance against base service targets - assessing this on a case by case basis. To allow us time to come to an agreement with companies prior to the new reporting year, companies would need to inform us of their plans no later than 31 January prior to the new reporting year.

A key part of allowing companies to undertake an innovative approach is that it should lead to an improved understanding of the effectiveness and cost of different approaches, and of new water efficient devices. We would expect companies to monitor the results of such an approach, including the costs and water savings made, and allow these to be included within an enlarged shared evidence base. This information would be used inform approaches to future water efficiency activity.

As a general point, we would encourage companies to work collaboratively - for example, with social housing providers. We would also encourage companies to integrate water efficiency activity with other visits and contacts - for example, when fitting a meter. We would expect this to reduce costs and increase uptake rates.

### **2.1.6 Education and information**

We would require companies to continue to provide information to their consumers on how to be more water efficient, and on the availability of water efficient devices and appliances. We think this remains a key element of companies' statutory duty to promote water efficiency. The savings from this activity are so uncertain that we do not think that it is currently possible for us to assign assumed water savings to them. They will not therefore form part of the MI/d target. We will assess this activity on a subjective basis, and expect companies to inform us of their plans in this area in advance of each reporting year.

We would expect each company's activity in this area to reflect its prevailing supply demand position, and will seek the views of each company's reporter on whether the level of activity is appropriate for that company. We will also take into account the level of activity reported historically by each company.

We give more details of our expectations in appendix B.

### **2.1.7 Evidence base**

We think that all companies should contribute to improving the evidence base for water efficiency by evaluating the actual savings delivered and cost of different activities, and by identifying the approaches that deliver the greatest consumer uptake. This improved evidence will feed into a shared database, which will benefit all stakeholders in helping to make a more informed case for water efficiency when we set price limits for the period after 2015.

We would expect companies to report annually in their June returns on their plans in this area, and on the progress that they have made. Companies should report any new or updated information to us so that we can share it with the rest of the sector.

### **2.1.8 Allowance in price limits to achieve base level service**

We think that the base service levels to which we refer in this consultation represent the minimum level of activity that companies should already be

achieving. We do not therefore propose to increase the allowance in price limits for companies to achieve the base level service proposed in this document.

In coming to this conclusion, we have taken into account the fact that in the past some companies have achieved and comfortably surpassed this level of service. We also think there are opportunities for companies to improve their approaches to water efficiency and installing water efficient devices at a lower cost. We have suggested in 2.1.5 that companies work with other parties, and integrate the installation and promotion of water efficiency with other visits and contacts, to reduce costs and increase uptake rates.

Is it reasonable to assume that companies already receive a sufficient allowance in base to implement the base level of service that we propose? If not, why not?

## **2.2 Sustainable economic level of water efficiency (selwe)**

Beyond the base level of water efficiency, we would expect companies to pursue additional water efficiency activity where it formed part of a sustainable, economic approach to balancing supply and demand. We encourage companies to consider the value of water efficiency as part of a portfolio of measures, helping to minimise overall risk. Companies would be responsible for determining their selwe as part of an economic appraisal of the options to balance supply and demand. Ofwat would decide what allowance to make in price limits for companies' proposals.

As with the base service element of the target, innovation would play an important role in the selwe. We would encourage companies with current or projected future deficits to put forward proposals for investigating and evaluating innovative water efficiency solutions. This should help to improve and extend the evidence base, complementing the work of the WSG, and the work led by Waterwise, 'The evidence base for large-scale water efficiency report'.

We do not think it would be appropriate to assess targets under the selwe heading, on the same three-year rolling average basis as for base service. We would agree a timeframe for completion of activity under this heading on a case by case basis with each company, and would expect companies to report progress annually in their June returns.

### **3. Revisions to activities which currently count as water efficiency savings**

We think that we should define water efficiency as activities that seek to influence consumers' decisions about how much water to use. Historically, companies have counted the water savings from their repairs to customers' supply pipes as water efficiency savings because companies' policies speed up the process for repairing these pipes. We propose to exclude these savings because we think that supply pipe repairs and replacements are part of network management and they already contribute to companies' efforts to meet their leakage targets.

However, we do propose to count the savings that arise from metering because metering encourages consumers to use water more wisely. We think companies should report these savings under the selwe heading.

Appendix A offers guidance on the savings that companies should assume.

#### Revisions to assumptions.

1. Do you agree with our conclusion that water assumed to be saved due to companies' supply pipe policies should no longer be counted as a water efficiency saving?
2. Do you agree with our conclusion that assumed savings from metering should count as water efficiency savings?

## 4. Incentives and penalties

Companies would have the following incentives to meet or exceed their targets.

- The revenue corrected price cap would compensate companies for any revenue shortfall relative to expectations, but companies would get to keep the cost saving from supplying less water.
- We would 'name and acclaim' the best performing companies.

A company that failed to meet its targets might face a penalty. Depending on the extent and circumstances of its failure, Ofwat might:

- Name and shame failing companies in annual reports on security of supply issues.
- Request an action plan from companies explaining how they would return to required target levels and make up previous shortfalls. Reporters would comment on these action plans.
- Request interim reports (between June returns) on progress with restoring required activity levels – again with Reporters comments.
- Make an adjustment in subsequent price limits.

## **5. Reporters**

Companies' reporters would have a role in monitoring performance. We would expect reporters to comment:

- annually on companies' plans for meeting their base service MI/d targets and on the progress that companies have already made;
- on each company's approach to providing consumers with information on how to use water more efficiently and whether the level of commitment is appropriate for the company's circumstances;
- on the steps that each company is taking to improve the evidence base on water efficiency; and
- where companies submit plans under the selwe heading, we would expect reporters to comment on the proposal indicating if they thought the estimated savings and costs were reasonable.

## **6. Reporting**

Companies should report in each June return how they plan to meet their water efficiency targets as well as on the progress they have already made. We plan to report on the progress companies have made when we report annually on security of supply issues.

## **7. Next steps**

In autumn 2008, we will publish our conclusions on water efficiency targets and notify each company of their annual water efficiency target from 2010-11 to 2014-15. We will expect each company to reflect its targets in its business plan for the period 2010 – 2015.

## Appendix A

### Assumed savings and uptake rate table

#### Cistern displacement devices

Type	Saving (litres per flush)	Flushes per person per day	Occupancy
Save a flush	1	5	Company specific
Hippo	2.5	5	Company specific

\*Number installed should be based on number of properties to which devices are sent, not the number of devices sent.

\*For non households, companies should assume 2 flushes per equivalent full-time employee.

#### Cistern displacement device installation rates (percentage)

Type	By company	Request by customer	Distributed at events	Other unsolicited
Save a flush	100	70	20	10
Hippo	100	70	20	10

#### Water butts (base service)

Volume	Fills per year	Installation rates (percentage)
Company specific	6	100

#### Retrofit WC devices (base service)

Type	Saving litres property day	Number installed
Variflush	23	Company specific
Ecoflush	23	Company specific
Ecobeta	23	Company specific
Dudley turbo	23	Company specific
Interflush	23	Company specific

#### Taps

Type	Saving litres per tap per day	Number installed/completed
Tap inserts	16	Company specific
Tap rewashing	12	Company specific
Miracle tap	14	Company specific
Retrofit push tap	30	Company specific

#### Showers (base service)

Type	Saving litres property day	Number/percentage installed
Challis aerated head	29	Company specific
Shower timers	5	23%

#### Gardens

Type	Saving litres property day	Percentage used	
		requested	other
Water saving crystals/gel	0.1	100%	25%
Hose trigger/spray gun	2.0	100%	25%

#### Self audits

Type	Saving litres property day	Percentage acted upon
Request	10	70%
Welcome packs	10	20%
Other	10	10%

#### Metering

Type	Assumed saving on current unmeasured per capita consumption
Optant	5%
Selective	10%

## **Appendix B**

### **Providing information to consumers**

The list below is the minimum information that we expect companies to provide to consumers:

- Provide literature on how to be more water efficient to all consumers via company's website, with bills and other company publications. This should include information on how to be water efficient in the home and garden.
- Promote water conservation by consumers, by offering practical water saving advice, and alert consumers to the availability of water saving devices.
- Provide information on self-audits via company's website, with bills and other company publications.
- Encourage schools, hospitals and other institutions to carry out self-audits.
- Provide and promote educational material for use in schools.
- Provide links on the company's website to other relevant websites concerned with water conservation. (e.g. Waterwise)

We will expect each company's activity in this area to be proportionate to the number of consumers served, the relative water stress in the company's operating area, and the prevailing supply conditions. Companies should report on their activity, and their plans for the coming year in their annual June return submissions.

## Appendix C

### Companies' base service water efficiency targets - 2010-11 to 2014-15

Company	Household properties billed (000)	Non household properties billed (000)	Total properties billed (000)	Target
	2007-08	2007-08	2007-08	MI/d
Anglian	1,804	114	1,918	1.9
Dŵr Cymru	1,202	103	1,305	1.3
Northumbrian	1,056	59	1,115	1.1
Severn Trent	3,076	196	3,272	3.3
South West	674	72	747	0.7
Southern	945	61	1,006	1.0
Thames	3,232	216	3,448	3.4
United Utilities	2,783	172	2,955	3.0
Wessex	499	52	551	0.6
Yorkshire	1,921	130	2,051	2.1
Bournemouth & W Hants	177	16	193	0.2
Bristol	448	34	483	0.5
Cambridge	114	10	124	0.1
Dee Valley	108	8	116	0.1
Essex & Suffolk	699	41	740	0.7
Folkestone & Dover	67	5	72	0.1
Mid Kent	225	21	246	0.2
Portsmouth	274	20	294	0.3
South East	549	45	594	0.6
South Staffordshire	504	29	533	0.5
Sutton & E Surrey	251	15	266	0.3
Tendring Hundred	66	4	71	0.1
Three Valleys	1,179	63	1,242	1.2
Industry	21,853	1,490	23,343	23.3

\*Household property numbers are taken from June return table 7 line 6 Non-household properties from table 7 line 10.