

Northumbrian Water response to the Ofwat consultation on Environmental incentives to support sustainable new homes

We welcome the opportunity to share our comments on the consultation on Environmental Incentives to Support Sustainable New Homes.

Q1 Do you agree with our proposed aim for environmental incentives?

We support the aim for effective environmental incentives for new development. We have had our own environmental incentives for water efficiency and surface water drainage separation in place for several years now.

Over the past 3 years on average approximately 60% of new properties being built qualify for the reduced infrastructure charge as surface water is being directed away from our existing networks.

However, we believe this is being driven more by planning policy and good practice in assessing the application of the hierarchy of preference in the management of surface water, which sees connection to the public sewerage network as the last resort, than just the application of any infrastructure incentives.

Our water efficiency incentive is for 100% of the water infrastructure charge for properties using less than 110l/p/d. It has had low take up rate to date, although we note that the proposals as set out in section 5 could increase the charging differential.

We support any approach that encourages the take up of these incentives by developers, but we note that these incentives are best coupled with planning requirements to have their full effect.

Q2 Do you have any comments on the characteristics of good environmental incentives?

A good incentive should be simple to understand and have clarity over the criteria for delivery. Developers will need to have confidence that any incentive will apply over the entirety of a development, so the incentive will need to be consistent over several years.

To give water companies more flexibility, Ofwat should consider whether, for environmental incentives, the wording of the developer charging rules could move from a focus on cost reflectivity to one that allows the consideration of wider environmental benefits.

As the consultation notes, the overarching PCC targets themselves incentivise water companies to reduce the demand of both existing and new housing. Companies will factor the PCC incentives into their assessment of what they can do to support water efficiency in new housing. This could include for example supporting water efficiency fittings in new buildings. These actions should not be mandated directly however, to ensure companies can apply innovation and flexibility of approach.

Finally, although not the subject of this consultation, the majority of the incentive for water efficiency will be for household customers through the volumetric tariff on measured supplies. The volumetric tariff will reflect cost savings throughout the supply network. It is thus critical to ensure that incentives to reduce water use are applied continually, not just at the new build point. The benefits of efficient water use have to be shared between developer and end customers for this to work.

Q3 Do you have any comments on the extent to which any environmental incentives could or should be adapted for implementation in Wales?

No comment

Q4 Do you have any comments on the case studies outlined?

We support giving companies and developers the flexibility to carry out local campaigns / trials in a bespoke way.

Q5 Do you have any comments on our proposed standardised incentive tiers?

We support the standardisation of the structure of environmental incentives, including the bronze/silver/gold tiers.

We would not support any attempt to impose a value for these incentives however, as they will vary by region.

We are wary about the imposition of a minimum incentive value, as even a small incentive per property could be of significant value for a large development.

Q6 Do you have any comments on our proposal for a common methodology / technical standards to assess water efficiency?

We would recommend adoption of a fittings-based approach linked to mandatory water labelling, as committed to by Defra in its Roadmap to Water Efficiency (Plan for Water, 2023). The Government has committed to implement mandatory water labelling in 2025, so there is a clear opportunity to dovetail with environmental incentives to support sustainable new homes.

Taking a fittings-based approach will also drive developers to adopt the most sustainable water-using products/appliances, which in turn will drive innovation and market transformation.

As demonstrated through the WRc case study, the current calculator approach is not driving the water efficiency performance needed.

Q7 Do you have any comments on the details of our proposal for companies to offer bespoke incentives?

We support having the option for companies to offer bespoke incentives. This will help support innovation and also allow them to reflect specific local circumstances. Companies could carry out limited pilots as learning exercises with the flexibility of a bespoke approach.

Q8 Do you have any comments on the potential for reputational incentives?

We support any approach that gives reputational incentives for developers to deliver environmentally beneficial developments. The bronze / silver / gold tiered classification in for developments in Table 2 appears simple to assess and understand.

Q9 We seek views on how the process for agreeing and paying environmental incentives might best be organised in practice, and whether this is consistent with existing developer services processes.

For water companies to pay environmental incentives, they must have a degree of confidence that the developer will meet the necessary standards. It is reasonable for water companies to

require contractual contingencies should a developer fail to meet the agreed standards. We do not believe that intervention by Ofwat would be helpful in this case however.

We agree that the DMEX mechanism incentivises water companies to provide a good service to developers and this includes the payment of incentives to developers as contractually agreed.

Q10 Do you have any comments on how high levels of compliance with the incentive technical standards might best be achieved?

We believe allowing companies to take a risk based approach to ensuring technical standards would be more appropriate than a top down imposition of a centralised target (such as numbers of audits). Developers with a track record of reliable delivery will require lighter assurance than those working on their first water efficient scheme.

Water companies are not responsible for checking developer compliance with building regulations and have no inspection or enforcement powers in this area. We urge Ofwat to consider where responsibility lies to enforce compliance with the building regulations, as this will be crucial to ensuring that homes built to particular water-efficiency levels actually deliver (referencing the findings of the WRc study).

Q11 Do you have views on whether environmental incentives are best funded as an environmental component of the infrastructure charge or as a separate charge?

We support the use of environmental incentives as adjustments upwards and downwards to the 'base' infrastructure charge. Creating a separate charge would add complexity and additional administration for developers with no additional value. In our experience, developers prefer charges to be aggregated with appropriate transparency of any breakdown.

Companies can report to Ofwat on the detailed breakdown base / incentive income in the APR to allow regulatory insight.

We support the current principle that, over the long run, base infrastructure charges should be set to recover network reinforcement costs.

Any further attempt to reduce contestable requisition or connection charges by applying environmental incentives runs the risk of creating a cross subsidy for what is now a competitive market.

Q12 Do you have any comments on our proposal for guidance issued under the charging rules and how they are developed and maintained?

It is important that the charging rules do not restrict or disincentivise the incentives as proposed.

To give water companies more flexibility, Ofwat should consider whether, for environmental incentives, the wording of the developer charging rules could move from a focus on cost reflectivity to one that allows the consideration of wider environmental benefits.

We do not believe that negative infrastructure charges (where incentives are greater than base charges) comply with current regulatory guidance, although clarification by Ofwat on this would be welcome.

Q13 Do you have any comments on our approach for managing interactions with the regulatory framework?

We agree at this stage that the environmental incentives should not be incorporated into D-Mex. However, this should be kept under review once the system is up and running.

There is a theoretical risk that, by introducing incentives that can increase infrastructure charges for some developments (per Figure 6), companies may find themselves unpopular with some developers. Companies discovering that efficiency technical standards have not been met is another potential source of conflict. It is important that incentives for companies do not drive risk averse behaviour in this area.

Northumbrian Water

July 2023