

## OFWAT Environmental Incentives for Sustainable New Homes

### Artesia Consulting

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### **Do you agree with our proposed aim for environmental incentives?**

Yes, we agree with the broad aim and methodology for the proposed environmental incentives.

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

We are satisfied with the characteristics outlined in the consultation document. We believe good environmental incentives should aim to simplify (or not over complicate) financial assessments from the developer, water company and regulators perspective. This is needed to keep the scheme as transparent and accessible as possible. We believe this ethos should be grounded in the following characteristics, *transparent, stable, and fair, trust and confidence, and accessible to all.*

In addition to this, we believe for the environmental incentives to be a success in the long term, particular attention should be paid to the following characteristics *support innovation* and *compliment wider policy*. Both these characteristics could be more ambitious in their wording and goal. For example, *support innovation* currently focusses on remaining flexible to incorporate new approach, more progressive wording e.g. not just remaining agile to new innovations but actively incorporating new technologies in water efficiency over time and tightening environmental incentives to achieve this. On a similar vein, we believe the *compliment wider policy* could be more ambitious and tie in better to the aims or aspirations for specific policies. For example, Artesia conducted a long-term PCC reduction options for Water UK (Artesia 2019) and found that mandatory standards for water labelling (that gets progressively tighter and more advanced over time, e.g. what is rated a grade A in year 1 becomes a grade C in year 15 as new more efficiency technology is invented) holds significant potential for industry to meet longer term PCC goals and achieve sustainable water futures. While we do appreciate how the current proposal incorporates wider policy and believe this to be a positive step, more progressive and ambitious aims could help further what can be possible with environmental incentives and wider water efficiency policy.

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

We recognise that Wales, while like England, has a unique social, political, environmental, and regulatory context. Specifically, water services in Wales are widely delivered by one company (Welsh Water), with Hafren Dyfrdwy (Severn Trent) serving a small population in North and East Wales. Similarly, Wales has specific legislation such as the Wellbeing of Future Generations Act for Wales (2015) and organisations such as Natural Resources Wales. While we do not have any specific comments to the extent to which any environmental incentives could be adapted for implementation in Wales, we would recommend that they take account of and engage with these different organisations, regulations, policies, and contextual factors in Wales. For example, can the environmental incentives tie into specific policies within the Welsh administration? Are there specific environmental factors that Welsh Water believe would influence the delivery of environmental incentives?

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

Reflecting on these case studies, we believe the environmental incentives are working with and based on leading industry efforts in this area (e.g., Thames Water, United Utilities). We seek to emphasize the learnings from Thames Water’s programme, in particular the fact that all applications were for single properties from private builders and lacked buy in for larger scale developers. We agree that water labelling may go some way to improving this, but specific work is also needed to engage with medium to large developers and identify opportunities to increase buy in to the environmental incentives scheme from these stakeholders.

Reflecting on the evidence that a minority of new properties complied with water efficiency standards, we echo calls that some sort of audit scheme (like that deployed by United Utilities and proposed in the environmental incentives) is needed. However, we also want to draw attention to Thames Water’s use of smart meter data to monitor and evaluate compliance and behaviour change. As water companies across England and Wales deliver extensive smart metering programmes throughout AMP8 and WRMP24 we feel the opportunity to use smart meter data to monitor and track compliance should not be missed.

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

We agree with the statement that incentives that are standardised across all water companies can be more transparent and stable and increase access for all developers. We are pleased that rainwater harvesting, greywater recycling, water reuse and water neutrality are included in the standardised incentives as this should support these technologies becoming mainstream. However, we query the ambition for these standardised incentive tiers into the medium to long term, for example, are there any ambitions for silver and gold tiers to be offered by all companies in the long term?

We think the incentives for medium to large developers needs careful consideration and needs to be attractive enough for these types of stakeholders to take part.

Finally, on the inclusion of water neutrality, we are unsure whether developers would qualify for this incentive in local authorities where water neutrality is required, for example in Sussex North Water Supply Zone (specifically West Sussex County Council). More clarification is needed for local and regional building regulations like this example.

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

Broadly, we agree with the approach taken and welcome the link to existing technical criteria in water efficiency policy (e.g., water efficiency labelling). This approach makes it easier for all stakeholders involved and ensures the common goal is clear and achievable. We would recommend that the environmental incentives contribute insight and evidence to these common methodologies and technical standards to assess water efficiency and ensuring they remain progressive and successfully foster innovation.

We would like to highlight that any delay in the planned inception of the water labelling scheme in 2025, will impact the ability to assess water using product efficiencies. For example, if the water



labelling scheme is delayed or progress is slower than anticipated, this will impact developer guidance on suitable water fixtures and fittings.

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

We agree with the approach taken to standard and bespoke incentives. We welcome the inclusion of bespoke interventions in the standardised incentives list once proven successful; this seems to be a method to ensure innovation in the environmental incentives scheme.

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

We agree that this has value and may be attractive to developers and the public. However, we urge practitioners to consider how this will be received by the public, there are already several environmental incentives and schemes related to wider sustainability and the addition of a new 'badge' may be confusing. We do believe this proposal and the issue of water efficiency is significant enough to warrant a reputational incentive but urge you to consider how this could also be enrolled in existing sustainability schemes or awards, for example those that recognise progress with Net Zero, energy security, transport infrastructure and habitat restoration. Working with these schemes would reduce public confusion and increase buy in.

**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.**

n/a

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

Broadly we agree with your proposal, especially the inclusion of audits. We want to draw attention to other methodologies to monitor compliance, for example the use of smart meter data (discussed earlier) as well as opportunities for developer led audits of water efficiency products. For example, developers already revisit new build properties after residents have moved in (usually at the year mark) to fix issues with the home, this could be an opportunity to review whether water efficiency fittings are working correctly (e.g. dual flush toilets, or internal pressure levels). Developers could be rewarded a higher level of environmental incentive for this return visit. Practically, it must be considered that any requirement that results in developers spending more time visiting properties and conducting checks on fittings, will result in an increase in costs.

Regarding standards and compliance, much like there is gas safety regulations covering all gas fittings, could water have a legal standard to ensure compliance?

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

n/a

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

n/a

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

n/a

### **Additional comments**

We have provided some additional comments below for consideration:

- Housing developments will have their own individual challenges. For example, there will be regional differences impacting on a housing development's profitability, it is desirable that the incentive scheme considers this.
  - There are likely to be challenges complying with water fitting standards. For example, due to customer quality expectations, challenges may be greater in executive new home developments, when compared to social housing developments.
  - Does the proposed fittings approach neglect behavioural aspect on usage? Will this limit consideration on wide ranging behavioural differences that exist? With our experience in the water demand, no two people use water in exactly the same way.
  - What happens at product end of life? Will they be replaced like for like?
  - What if customers remove fittings as the flow of water isn't giving them the experience they like, and opt to purchase less efficient items?
  - A fittings approach doesn't consider varying occupancy levels.
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