



Consultation on environmental incentives to support sustainable new homes – July 2023

Southern Water Response

Thank you for the opportunity to respond to your consultation on Ofwat's proposal for environmental incentives. In general, we support the proposed approach. Where we have comments or minor proposed amendments, we have included this in the specific consultation questions below.

Consultation

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

We support the aim. We recognise the opportunities and challenges associated with new development and its impact on the local environment. We implemented an extensive suite of efficiency incentives for water and wastewater new connections in 2023. Based on our initial experience and customer feedback we believe more standardisation across water companies could increase take-up and ensure a uniform approach to validating the incentives.

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

We support the characteristics laid out in the consultation document. We believe that incentives should influence developers to build more sustainably than the norm. Therefore, incentives should not be available for achieving minimum planning requirements. Incentives should only be awarded to developments which go beyond existing minimum requirements. For example, if SuDS are already demanded by the planning system, only enhanced SuDS which go beyond the mandated minimum requirement should be rewarded through incentives.

We support the key principles of transparency and stability. We also recognise the importance of cost certainty for developers in the design process. We therefore support the ability of developers to lock in incentive rates for a given development at the time of initial application. At the same time, we believe incentives should evolve over time in response to changes in environmental standards and planning rules.

Q3: 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 some standardisation between water companies would be helpful.

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

We welcome the advancements in water efficiency standards in planning and building regulations. Incentives should adapt overtime to align with new legislation as it develops. For example, if current

standards on water consumption are tightened to 105l/h/d or 100l/h/d then incentives should only be awarded to developments exceeding the baseline requirement.

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

We support the 3-tier approach to water incentives. However, we feel water companies should be able to enhance the 3-tier approach with additional offerings. For example, particularly water-stressed or water-neutral areas could require different approaches.

Wastewater incentives should only be available for developers that go beyond the minimum requirement. Therefore, only enhanced SuDS which exceed minimum requirements should receive a discount. Mandatory SuDS should not receive an environmental incentive.

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

We support the adoption of a common methodology for measuring consumption. We anticipate that the introduction of standardised labelling of devices could compliment a common methodology.

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

We support the creation of bespoke incentives. Bespoke incentives offer water companies the opportunity to compliment the three-tiered approach with enhancements. They also offer wastewater companies the chance to tailor SuDS requirements to adapt to local environmental needs.

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

We recognise the potential benefits of reputational incentives for developers. To improve the accuracy of award and ease of administration we would recommend reputational incentives are awarded at a site level.

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.

Our existing incentive structures have been implemented with only minor changes to existing processes. In our experience, incentives should be agreed at the point of initial application to provide developers with cost certainty to make it easy for developers.

The infrastructure charge is typically levied at the time of final connection and lends itself to the issuing of incentive credits. Should the net charge result in a credit to the developer, the credit is withheld until the required efficiency measures have been installed effectively and validated. This approach allows us to validate incentives in a timely and efficient manner. We believe a common approach to the payment process would help developers and water companies in the administration of incentives.

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

We believe that a common methodology across the sector combined with common terms would improve uptake. It is anticipated that the increased workload including site audit, design review and

administrative overhead would attract additional cost. This should be funded by developer customers to avoid cross-subsidy with domestic customers.

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 agree the incentives are best funded as a component of the infrastructure charge. Linking incentives to the infrastructure charges underpins a cost-reflective approach whereby network reinforcement expenditure is recovered from developer customers.

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

We support the proposed approaches to standardisation and funding mechanisms. We welcome a degree of flexibility in any new rules and technical specifications so that the industry can benefit from new technologies as they develop.

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

We support the proposed approach. We welcome further review into the existing framework to identify any necessary enhancements.

Should you have any queries on our response or would like to discuss further, please do not hesitate to contact me.

Yours sincerely,

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Network Tariffs Lead

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