

# United Utilities response to Ofwat's consultation - Environmental incentives to support sustainable new homes

## Introduction

We welcome the opportunity to comment on Ofwat's consultation on environmental incentives to support sustainable new homes.

We are always keen to consider effective ways of driving behavioural change through charges and tariffs, including environmental incentives that apply to new development.

Uuw supports environmental incentives that are transparent and fair and consider environmental incentives have a role to play in addressing the long-term challenges of the water sector.

We have responded to each of the questions set out in the consultation below.

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

We agree with the proposed aim for environmental incentives.

Uuw considers that water companies should offer developers and NAVs environmental incentives that encourage development built to the best environmental standards in terms of water efficiency and reduction of surface water drainage across all sizes of new developments. Any incentives should drive behavioural change, and be offered only where the development exceeds minimum requirements.

These principles have also driven the existing incentives that we have developed and implemented within our suite of new connection charges. Uuw has been an early adopter of environmental incentives for new developments (for both water efficiency and sustainable drainage).

We have been offering environmental incentives since 2018 and welcome the coordination of such incentives across the industry. Our existing incentive scheme targets developers to build homes that consume less than 100 litres per person per day, surpassing the optional standard in Part G of the building regulations. By raising the bar and encouraging further innovation in water-efficient fixtures and fittings, we aim to foster continuous improvement in water consumption within new homes.

Furthermore, we offer wastewater incentives for developers to choose not to connect surface water to existing public sewers. This is particularly relevant for many new developments, especially larger ones, and it aligns with our commitment to sustainable drainage systems (SuDS).

It should be recognised that incentives for new developments are just one aspect of the wider charging incentives that should be considered in driving greater water efficiency and more sustainable drainage across the Uuw region and more broadly, nationally as a whole.

In our area new developments built each year represent less than a 1% drainage burden with less than 1% of total area drained attributed to new developments built each year.

To maximise the impact there needs to be appropriate incentives for existing customers, for example, for customers to keep the water efficient fittings.

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We already offer a number of incentives for existing customers in relation to other wholesale charges (for non-household customers) and NAVs in our region:

- UUW has an incentive scheme for non-household customers who drain surface water from their site through a sustainable drainage system, providing an opportunity to make savings in their surface water charges.
- We offer a water efficiency incentive to support retailers assisting non-household customers to make water efficiency interventions on their sites.

We are also currently exploring a number of tariff innovation options for household customers across the next two years, which will include incentives for customers to reduce water consumption and to help reduce the risk of sewer flooding.

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

We agree with the proposed characteristics of good environmental incentives, emphasising their alignment with charging principles. We welcome the proposal's support for innovation and the flexibility it offers within the framework, including innovation through bespoke incentives. It is important that these incentives are accessible to all types of developers, regardless of their scale or customer base, and we fully endorse this inclusivity.

We also consider that national alignment of water efficiency measures is important to ensure clarity and transparency for developers while minimising administrative burdens for both parties. Establishing trust and confidence between developers and water companies is essential to ensure the timely and accurate payment of incentives, as well as the construction of homes that meet agreed-upon standards.

In order to streamline processes and ensure efficiency, we propose that the burden of proof for satisfying scheme requirements remains with the developer. Developers should be responsible for gathering and providing evidence at the time of application and during construction, which can be audited by the company. A sample of properties may serve as a gateway for full payment of incentives, optimising efficiency without compromising accuracy.

Moreover, we support the authority of companies to suspend developers from applying for the scheme on future sites if they fail to comply with the scheme's requirements. Additionally, companies should retain the right to recover costs in cases of incorrect incentive claims.

It is important to note that the calculated litres per person per (for water efficiency incentives) day are theoretical values and subject to change based on factors such as occupancy and frequency of use. As highlighted in the consultation, actual usage may vary from the design usage.

We consider that the framework for environmental incentives should have a hierarchy of sustainable options, for example, there is a significant difference in cost and impact between installing a water butt compared to a full rainwater harvesting system. We would expect that take up will be easier for some elements of the incentive scheme.

In relation to the principles of transparent, stable and fair, consideration needs to be given to managing the impact on the developer bill as environmental incentives will be self-funded by the developer community.

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In relation to trust and confidence it is important that environmental incentives applied deliver the environmental benefits expected. For example in relation to water-efficient fittings there need to be confidence that they will not be dismantled by occupants when they move into their new property. This not only applies to new connection charges but also to charges more broadly, there is wide variation on companies approach to surface water drainage and ongoing incentives in these areas.

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

As we have very few customers in Wales we have no comment to make in relation to implementation in Wales.

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

The case studies help illustrate some of the challenges and risks around implementing effective environmental incentives as well as highlighting opportunities for innovation.

One of the key characteristics is trust and confidence. Incentives should be based on what developers have done not what they are going to do. There is a compliance risk if developers are submitting their applications for the sustainable incentives during the latter stages of the planning process and don't then build to the standard required. As part of our review into the water efficiency incentive on new developments, of the 156 properties audited only 37% passed. It is important that companies can make the payment conditional on compliance with the relevant standard, such as subject to audit, or have a proposed deterrent.

We acknowledge Thames Water's innovative approach to incentivising sustainable development and promoting water reuse and water neutrality. We have taken note of the tier 1 incentive, which targets 100 litres per person per day using the fittings approach outlined in Table 2.2 of Part G2 of the building regulations 2010. We are aware that this requirement is already in place in the Greater London Plan, where new developments should achieve 110 litres per person per day. As developers consider future schemes, we anticipate an increase in uptake of this tier as they become more aware of the scheme.

We appreciate the inclusion of water reuse in tier 2, and it is encouraging to see Thames Water's change in position, now requiring some form of water reuse for toilets. This adaptation should make tier 2 more achievable for developers. It would be highly beneficial to see developers take proactive measures by installing water reuse systems.

We understand that water neutrality is driven by planning conditions requested by Natural England in certain parts of Southern England. We recognise the need for an incentive scheme to facilitate water neutrality in new developments, aligning with the objectives of Thames Water and Natural England. However, since water neutrality is not a requirement across the rest of England, we suggest introducing flexibility with a tier 3 incentive which would allow companies to determine the appropriate requirements for their region. This would allow greater uptake of this tier for various thresholds.

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## 5. Do you have any comments on our proposed standardised incentive tiers?

We support the idea of a common framework with standardised incentives and are currently developing a tiered approach. We will align our approach to any future common framework that is introduced.

We agree that a tier 1 (“bronze” level) incentive should include water efficiency targets aligned with a nationally recognised standard and incentivise sustainable drainage.

We note that the proposed standard incentive tiers refer to installation of SuDS.

It is important to acknowledge that SuDS can take various forms, including site-level blue/green infrastructure such as ponds, basins, and swales, as well as plot-level examples like rain gardens, green roofs, and bio-retention areas. Large volume attenuation tanks are also considered a form of sustainable drainage in certain areas.

Many large housing developments are already required to have some form of SuDS as part of planning conditions and SuDS will be mandated further with the implementation of Schedule 3 of the Flood and Water Management Act (2010) in 2024.

Therefore, incentive schemes should be adaptable to changes in legislation, including building regulations and other requirements.

We would welcome further development on the description of the types of SuDS this would apply to and how we can ensure this level of incentive is accessible to all new developments. Our current incentive for new development is for no surface water connection to an existing public sewer. We suggest that this best practice should be a tier 2 solution (“silver” level). This will mean that developments which are not located near to a suitable surface water connection point can still benefit from a tier 1 incentive (“bronze” level) by incorporating some form of SuDS, even if they still need to discharge to sewer. This could be at property level (for smaller or city centre developments) or at site level for larger housing estates. The table below provides an illustration of how this could work. This approach provides benefits to water and wastewater at “bronze” and “silver” levels.

Description	Incentive	Illustrative reputational tier
<b>Standardised incentives</b>		
Water efficiency i.e. 100lpppd/110lpppd (TBC)	£X00	Bronze
Installation of SuDS, either; -property level ‘basic’ SuDS (e.g. water butt, permeable paving, rain garden or similar) or; -properties connected to site level SuDS (e.g. pond, basin, swale or similar)	£X00	
Installation of one of: -rainwater harvesting; -greywater recycling; -water reuse	£X00	Silver
No connection of surface water to existing sewers	£X00	
Water demand offset i.e. neutrality or appropriate company threshold	£X00	Gold
<b>Bespoke incentives</b>		
Bespoke incentive (e.g. green roof installation)	£X00	

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We note in section 4.2 (page 29) a minimum value of incentive is proposed above a negligible value to drive changes in behaviour. We are supportive of this in principle but are keen to understand how this will be developed and who will decide this.

Operational issues should also be considered when developing environmental incentives, such as responsibility for maintenance. Some of the proposed incentives, for example greywater recycling, are costly to install and will require some level of ongoing maintenance. There needs to be clarity on what is being incentivised.

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

Currently, U UW stipulates that the estimated water consumption of a new dwelling should be calculated using the methodology outlined in Appendix A of the guidance supporting Part G2 of the building regulations. This approach allows applicants to select fixtures and fittings and calculate estimated consumption for each new property, aligning with our current incentive requirement of 100 litres per person per day.

The consultation proposes utilising the fittings approach as an alternative, as encouraged by Defra's environmental improvement plan. We understand that the fittings approach, detailed in tables 2.1 and 2.2 of Part G2, is designed and configured against the mandatory standard of 125 litres per person per day and the optional standards of 110 litres per person per day, rather than the 100 litres per person per day stated in the consultation. If the fittings from table 2.2 are added to the water efficiency calculator, the estimated consumption amounts to 106 litres per person per day. Therefore, we believe that the proposed technical standards to achieve 100 litres per person per day may not be appropriate. We suggest considering alternative approaches, including:

- Setting the water efficiency threshold in line with the optional threshold of 110 litres per person per day.
- Setting the water efficiency threshold at the theoretical estimated water consumption rate of 106 litres per person per day.
- Developing an alternative calculation methodology in collaboration with stakeholders.

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

We agree with the proposal for companies to offer bespoke incentives that complement their strategic ambitions and support sustainable new homes.

We consider it may be appropriate for bespoke incentives to sit outside the normal application process for standard tiered incentives. This would allow companies to quickly respond to existing or ongoing developments, rather than developing bespoke approaches that might take years to be constructed and assessed if included in the standard approach. For example, a company may be able to influence greater sustainability on sites that are already benefiting from an incentive scheme or have not been able to benefit from one.

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Having flexibility regarding when a bespoke incentive could be applied would enable faster learning. This would mean that the bespoke incentives may need to be separate from the normal charge setting process, and the relevant information appended to companies' charging arrangements as appropriate, allowing for more agility when setting incentives.

Additionally, we consider that it may be appropriate for some bespoke incentives to be limited to a specific area or time period and potentially set on a first-come, first-served basis. This approach would help define parameters for testing new or innovative approaches to supporting sustainable new homes.

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

We agree that including a reputational element in environmental incentives is important. This approach should encourage developers to develop their own business cases for investing in the construction of sustainable homes.

Given the desirability of incentives for developers building multiple properties, we consider it is appropriate to decide whether a reputational incentive should be granted by developer, by development, or by plot. Large developers, operating regionally or nationally, may have numerous sites that cannot fulfil all the requirements of an environmental incentive. The same situation can occur at the site level, where certain plots may be eligible for different tiers of incentives. Additionally, we need to ensure that developers cannot benefit from a reputational incentive tied to their brand by completing just one site and subsequently choosing not to build sustainable homes once the reputation incentive has been received.

We suggest that the Water UK Environmental Incentives Working Group, in collaboration with stakeholders from the housebuilding community, review reputational incentives at an industry level. This review should aim to develop a clear and consistent methodology for awarding such incentives.

### **9. 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.**

As with any incentive scheme, it is important to establish the acceptance criteria early on and apply the criteria consistently. Currently, UUK allows developers, SLPs and NAVs to apply for incentives until the point when a signed acceptance note/terms of business/adoption agreement is returned to us. This approach assumes that the customer has been presented up front with all relevant financial information concerning the site, including contestable and non-contestable works, application or administration fees, income offset, infrastructure charges, and applicable environmental incentives. We believe that implementing a cutoff point is necessary to avoid retrospective applications for incentive schemes once water is delivered to the site. This ensures accurate revenue forecasting based on operational data. The signed acceptance should foster trust and confidence that any applicable incentives will be honoured by the company.

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We consider it is appropriate to apply most environmental incentives at the point when water is connected to the property and an infrastructure charge becomes payable. This avoids any delays or inefficient processes in dealing with incentives. Additionally, developers should provide all relevant information regarding compliance with incentive criteria before the property is connected to water. The same approach can also be applied to bespoke incentives.

We also consider that environmental incentives should be set at the prevailing year's rate in line with infrastructure charges. Companies should be able to flex the incentive each year to ensure it is self-funding. We do not consider it appropriate to fix the incentive for the duration of the scheme.

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

We support the notion of tying incentive payments to a compliance audit of a sample of new homes against relevant standards. This approach aligns with the requirement for environmental incentive payments to be made in conjunction with infrastructure charges, and it holds developers accountable for demonstrating compliance. Compliance checks can be verified through site inspections as required.

Companies should also retain the right to claw back incentives from developers who fail to meet agreed-upon standards and have the ability to disqualify developers from applying for future incentives for a certain period.

Developers have expressed the challenge of complying with water efficiency standards, as they rely on their supply chain to provide suitable fixtures and fittings while ensuring installation requirements are upheld. Therefore, it is crucial to establish clear and reasonable requirements for developers, enabling them to implement necessary protocols to ensure compliance throughout the supply chain.

The introduction of mandatory water labelling would benefit developers (and customers) by providing clear specifications for the products being purchased and installed in new homes. Our experience indicates that developers often need specific technical literature from manufacturers to complete the water calculator. However, we have encountered instances where the technical literature provided does not contain the correct values as required by Part G. Hence, it is important for manufacturers to be aware of incentive schemes and technical standards, ensuring the availability of accurate information when needed.

During our audits of water-efficient fixtures and fittings in new developments, we have encountered situations where developers have opted for alternative specifications for toilets or showers. As long as the alternative fitting achieves the same water efficiency standard, then that would be acceptable to us.

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

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We consider that environmental incentives would be best funded as an environmental component of the infrastructure charge as part of the wholesale network plus price control. This would make it easier to manage and communicate.

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

We welcome guidance being issued under the charging rules for consistency across companies.

For the changes to charging rules to come into effect from 1 April 2025 we consider that it is important to consult on the detail of proposed changes to the charging rules as soon as possible. Changes to the way environmental incentives are funded from one price control period to another may require companies to consider transition arrangements for existing schemes to mitigate impact on developer customers.

We would suggest that the interaction of infrastructure credits is also considered as part of the proposed changes to the charging rules on infrastructure charges and environmental incentives to ensure consistency of treatment across companies. For example our current infrastructure charges are calculated based on the number of new connected properties we expect to be able to levy an infrastructure charge. As part of our calculation we exclude a small proportion of properties from our forecast for sites that would receive an infrastructure credit to reflect previous site use (and therefore would not be required to contribute towards the cost of network reinforcement). This means currently that those sites do not get any additional incentive for being sustainable. Under the new environmental incentive scheme we would expect such properties to be able to benefit as the environmental incentive is not linked to network reinforcement but rather satisfying the sustainable criteria set by each company.

We support this work initially being undertaken and developed by the New Connection Committee industry working group. This guidance will need to be reviewed periodically to ensure it is still relevant.

In relation to incorporating new technology and technical standards we support the proposed approach for a change control process managed by Ofwat through an impartial expert panel.

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

We agree with Ofwat that there needs to be a level playing field in offering incentives to all developer customers.

We agree that the incentives and charges would be applied for all new developments connected to the incumbent's network.



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Our existing environmental incentives are available to all developer customers including new appointees with a bulk supply or bulk discharge agreement.

We are currently exploring a number of tariff innovation options for household customers and will consider how we can support environmental initiatives introduced by NAVs as part of this.

We agree with the proposal not to include specific service levels in D-Mex relating to environmental incentives at this time. We consider that it would be appropriate to allow any new environmental incentive framework a period of time for service standards and response times to become established before being incorporated into D-MeX.