

AffinityWater

Consultation Response

Environmental Incentives to Support Sustainable New Homes



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Introduction

This is Affinity Water's response to Ofwat's consultation on Environmental Incentives.

We strongly support Ofwat's ambition to encourage water companies to offer environmental incentives through their developer charges. This, however, needs to work with other, potentially more powerful tools/legislation, such as national and local planning policy and building regulations, to best deliver environmental outcomes.

We would wish to see this approach extended to encompass all types of developments, rather than solely focussing on new housing as implied by the cover title. We believe this approach should be designed to encompass a broad range of development use classes, including change of use and retrofitting in order to capture opportunities for environmental enhancement across a range of diverse projects.

Questions

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

We fully support the proposed aim for environmental incentives to promote water conservation and sustainable drainage across all types of new development.

We agree with the aim to achieve 100liters per person per day as outlined in section 4.2. This goes above and beyond current standard and aligns with Defra's road map for water efficiency.

"...greater water efficiency and / or more sustainable drainage across all types of new development"

Whilst we acknowledge the separation between water only and water and sewerage companies, we find the usage of the term "or" may inadvertently suggest that only one of these objectives should be pursued. Considering the implementation of Schedule 3 and the introduction of SuDS Approving Bodies (SABs), it is essential for all water companies to actively support the legislative changes being introduced by government for including sustainable drainage in all development, including minor applications.

Consequently, we recommend the removal of the word "or" to emphasise the necessity for simultaneous pursuit of both water conservation and sustainable drainage by all water companies.

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

Affinity Water are generally in support of the stated characteristics of good environmental outcomes, which closely align with the principles of the wholesale and new connections charging rules.

Taking the characteristics one at a time we have the following points:

a) Transparent, stable and fair

We support this characteristic; it aligns with our commitments to environmental protection and enhancement and our dedication to providing a customer centric service.

b) Support innovation

We fully endorse the adoption of an innovative approach to address the challenges concerning water recourses. We have actively engaged with our developer customers who have expressed their interest in collaborative efforts towards implementing additional environmental incentives. For further details of this please see section 3 of our charging consultation : <https://www.affinitywater.co.uk/docs/developer/2022/DX-Charging-Consultation-Response-23.24.pdf>

However, it is imperative for water companies to provide developers with a sense of assurance regarding the adoption of solutions such as dual-piped systems. Additionally, a crucial aspect involves offering future occupants of these developments a guarantee of maintenance standards to ensure continued functionality and effectiveness of these solutions.

c) Trust and confidence

We support the need for an effective and efficient payment process. Nevertheless, for water companies to be assured of the long-term water efficiency of new developments, substantial enhancements must be made to the fittings approach. Currently there is a notable gap in compliance standards and assurance. Insufficient certainty surrounds the selection and installation of water-efficient products, and there is a lack of pre-connection and post-installation audits to verify their proper implementation.

The issue becomes especially concerning when considering scenarios where end users remove or replace water efficient fittings, leading to the loss of the intended and incentivised water savings benefits.

Furthermore, we raise concerns with the wording of this characteristic, which exclusively mentions "homes". As stipulated in the draft aim, all new developments should be encompassed by these incentives, not solely limited to domestic dwellings. The scope of the environmental incentives should be extended to cover a diverse range of development types, including commercial and industrial establishments to maximise opportunities.

d) Accessible to all

We endorse the accessible to all approach. However, it is crucial to consider the challenges faced by the smaller, one-time builders in this context. These builders may encounter higher implementation costs due to their inability to leverage economies of scale when procuring water efficient devices.

Considering this, it is essential to consider the unique circumstances and financial constraints of such builders, ensuring that the proposed incentives are not disproportionately burdensome for them.

e) Compliment Wider Policy

In the context of complimenting wider policy, we firmly advocate the establishment of incentive targets that go above and beyond the current requirements. However, case study evidence shows the reluctance of developers to exceed legal obligations.

Many local authorities have emerging local plans which we can influence at an early stage. For local authorities to include a policy which requires 110lpd evidence is required to show they are in a water stressed area. We strongly believe that new developments should go beyond 110 lpd and it would be helpful if Ofwat could support water companies by providing evidence of such requirements to the local planning authorities and Planning Inspectorate.

Suggested additional chrematistics

Monitoring and maintenance is a vital part of the environmental incentives success. As stated in the governments strategic policy statement a resilient water sector is one where the environment is protected and wider social benefits are captured and maintained over the long term. However, presently, a significant gap exists in terms of ensuring the ingoing success of developments over an extended period.

To attain the desired outcomes and uphold the objectives of environmental incentives, a comprehensive mechanism for continuous monitoring and maintenance must be established. Such a mechanism will play a pivotal role in safeguarding the sustained environmental benefits derived from water-efficient developments.

Education is a pivotal element in securing the success of water-efficient systems. Its significance goes beyond our developer customers, encompassing all stakeholders involved in the entire development lifecycle, ranging from conception to occupation. It is imperative that planning authorities gain a profound understanding of the strain on water resources and comprehend their integral role in facilitating the adoption of water-efficient measures in new developments.

To ensure the enduring benefits derived from water-efficient systems, it becomes essential for long-term occupiers to receive comprehensive education on how to effectively use and maintain these systems. By providing the necessary educational resources, we can empower all stakeholders involved in the development process to make informed decisions and actively contribute to the sustainable use of water

resources. Such concerted efforts in education will lead us towards achieving greater water efficiency and environmental conservation on a lasting basis.

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

N/A

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

We support the evaluation of the case studies, acknowledging that not all of them have yielded successful outcomes. In this regard, we firmly believe that several positive results and lessons learned from these studies have been effectively documented within this report, thus offering valuable insights to pave the way forward.

It is important to emphasise that the success of any forthcoming environmental incentives heavily relies on the continued monitoring of their implementation. By tracking the progress and impact of these incentives, we can identify areas for improvement and optimise the effectiveness of future incentives.

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

We support the implementation of a unified framework across all water companies. The adoption of the bronze, silver, and gold tiers provide a comprehensible and straightforward approach for stakeholders to comprehend and engage with.

While we endorse the aspiration for minor developers to attain all tiers, we recognise the challenge this presents, considering that water neutrality may not be attainable for all minor developments due to cost considerations. Striking a balance between challenging developers and ensuring feasibility is crucial to encourage widespread participation and successful outcomes.

We question the inclusion of Sustainable Drainage Systems (SuDS) as an incentive, given that these systems are mandated for all developments, including minor ones under Schedule 3, set to be enacted in 2024. It seems counterintuitive for water companies to offer incentives for compliance with a legal requirement.

The establishment of a target of a minimum of 100 litres per person per day or less is strongly supported as it aligns with Defra's roadmap and allows for adaptability based on local needs. Nonetheless, it is vital to recognise that achieving this standard may necessitate complementary legislative changes, such as updates to building regulations, to empower water companies to effectively enforce this requirement.

We also question the rationale behind some incentives not being universally offered by all companies. Case studies have demonstrated that relying solely on a fittings approach to achieve the 100 litre per person per day target is inadequate. To ensure the longevity and effectiveness of water-efficient systems, a combination of fittings

and rainwater harvesting is essential. Thus, we advocate for the standardisation of these requirements across the industry to ensure consistency in achieving the desired aim.

These need to be supported and underpinned by updated building regulations and planning policy. Strengthening these foundational elements will provide a robust framework for the successful implementation of environmental incentives.

In addition to supporting the implementation of standardised incentives, we strongly recommend the introduction of a requirement mandating the installation of smart meters in all new developments, where applicable. Smart meters can play a crucial role in driving behavioural change among end users.

By mandating smart meters water companies can efficiently collect and analyse consumption data, allowing water companies to gain valuable insights into usage patterns and make informed decisions regarding water resource management.

Under current regulations and legislation, development based solutions for water reuse schemes providing fit for purpose water preclude water companies from being involved. We challenge the regulators here to facilitate change in these to enable the Water Companies involvement, including installation and management of such non-potable asset.

Q6 Do you have any comments on our proposal for a common methodology / technical standards

We are in full support that fittings must be installed correctly, with robust evidence of successful implementation in practice.

It is imperative to recognise that the efficiency of fittings not only relies on their correct installation but also on their sustained use by the end user, to ensure the benefits are realised for the long-term. We question how this would be achieved and who would be responsible for auditing the fittings over a period of time.

We support and welcome the flexibility to accommodate advances in technology and innovation. This flexibility will ensure water companies are better equipped to address the water resource challenge and utilise all opportunities for water efficiency and sustainable practices.

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

We are in full support of this approach and believe this will allow companies across the country to offer more customer-driven incentives. It will also allow us to look at different solutions which match the unique characteristics of a particular area.

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

It may be difficult to apply a standard approach for reputational incentive across all water companies. Whilst the idea of utilising the Waterwise model is supported we are unsure if this would be fit for purpose and may create confusion.

Providing companies with a reputational benefit over the long term can only be effective if the water efficiencies implemented are durable and not subject to removal by occupants shortly after installation.

From the case studies, it becomes evident that developers and home buyers have not adequately associated water efficiency with potential reputational benefits. It is imperative to present them connections between water efficient development and carbon reduction. For instance, where rainwater harvesting is utilised for non-potable uses, thus leading to a reduction in portable water consumption and consequent carbon efficiencies.

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.

We express our concern regarding the potential implementation of a discount at the time of infrastructure charge payment. While the idea may seem logical, we have reservations based on the findings from the case studies conducted by Thames Water and United Utilities.

As previously highlighted, it is crucial to ensure that fittings and fixtures are correctly installed, and this may require conducting audits. If a developer fails the audit, water companies could be put in the challenging position of having to request a refund for the discount granted, which could significantly impact both the company's reputation and its Developer Services Measure of Experience (D-MeX).

Given these concerns, it is vital to carefully weigh the potential risks and implications associated with offering discounts at the time of infrastructure charge payment. Alternative approaches that minimize such risks and ensure the proper implementation of water-efficient measures should be thoroughly explored.

A potential solution to address the concerns could involve the establishment of a formal legal agreement between water companies and developers. Under this agreement, developers would commit to adhering to the prescribed water efficient standards for all their development sites. This would streamline the process, necessitating only sporadic spot checks before the incentive payment is made.

However, for small one-off developers, implementing a legal agreement might not be a viable or practical approach. Conducting checks on all minor development sites could also present logistical challenges for water companies. In light of these considerations, an alternative method to confirm the successful installation of fittings could be explored. One plausible option is the use of photographic evidence, where developers provide photographic documentation of properly installed fittings before

the release of incentive payments. This approach would offer a more practical and efficient means of verification, facilitating the implementation of environmental incentives while accommodating the varying scale of development projects. By adopting a pragmatic approach tailored to the specific needs of different developers, we can effectively balance the drive for water efficiency with the practical realities of the industry.

If the minimum value of incentive discount (page29 of consultation) is introduced, it must be carefully considered that these discounts will be funded by other developer customers and will be derived from connections rates in year. This is subject to market conditions and could impact on a revenue-neutral position if increase in water efficient properties occurs.

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

We agree and support the sampling of new homes to ensure compliance with water efficient standards. However, we reiterate the vital importance of expanding the scope to encompass all new developments, not solely limited to dwellings. In doing so, we can ensure that the draft aim of promoting water efficient across all types of development is comprehensively addressed.

Whilst the sampling approach is supported it is essential to carefully consider its practical implications. Clarity is needed regarding the responsibility for conducting the sampling process and the specific stage at which it would be completed. To ensure developers have confidence in the incentives, this aspect must be clearly defined from the outset. Determining the sampling process early on and communicating it effectively will provide developers with a clear understanding of the compliance assessment procedure and foster a sense of transparency and accountability in the implementation of environmental incentives.

We express our lack of support for the disqualification of developers from future applications. Such an approach could prove detrimental, potentially discouraging developers from trying to meet the incentives. Instead, we propose a more constructive strategy centered on proactive engagement with developer customers. The government has indicated its intention to consult on the possibility of water companies becoming statutory consultees for planning applications later this year. This presents a valuable opportunity to foster early engagement and influence effective design, thereby ensuring compliance with water efficiency standards.

It is essential to consider the specific challenges faced by one-off developers, particularly those confronted with technical expertise barriers and potentially limited funding to meet compliance requirements. While it is acknowledged that such developers might not necessitate additional connections, it remains crucial to promote a successful and positive journey for all stakeholders involved.

It is important to recognise that technical compliance alone does not fully address the subsequent barriers to achieving per capita consumption reduction nor does it

guarantee end-user alignment with the efforts and expenditures made by the water companies and developers upfront.

By adopting a well-rounded and collaborative approach, we can effectively enhance compliance with water efficient standards, promote best practices and creating a favourable environment for both developers and end users.

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 consider it preferable to keep the environmental component separate to the infrastructure charge. Adding this additional element to the infrastructure charge could add confusion and a level of complexity.

Infrastructure rules may need to be revised to allow historic recovery and maintain a revenue-neutral position now the balance of charges rule is to be removed. Financial neutrality 'over a number of years' is ambiguous and remains open to a range of infrastructure and incentive calculations across the industry.

Requirements for incumbent developer services to issue and manage environmental incentives when they remain in price control may impact operational overheads. These are not reflected equally across other market players and as such should allow for cross-charging to the wholesale business.

There is an opportunity here to create a structure which may endure further market changes in the future. We would support consideration of this to avoid, where possible, additional iterations and changes to charging approaches which ultimately affect our 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 agree with suggestion for the provision of additional guidance in the revision of the charging rules. We would ask for consideration to be placed on the release of changes with the upcoming submissions of Price Review Draft Determination and later Final Determination.

As noted above, alignment with the current charging principles is key and will allow new incentives, both common and bespoke, to be underpinned by a strong, clear and consistent approach. This should improve customer and market understanding of the purpose and aims of water efficiency incentives; this will ensure they move in line with the broader charging structures and publications.

We support the provision of methodologies for calculating common incentives. It will be important for the NCC industry working group to consider the challenges provided to incumbents and developers who choose to uptake more demanding incentives

and/or those captured in the upper tier(s), whereby proof of saving is required such as the example provided in 5.3 of the consultation.

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

We agree that introducing a standardised environmental incentive framework across all companies would offer developers clarity, confidence, and foster consistency in the industry. A clear and well-defined process path with set levels of service represents an appropriate approach. However, we emphasise the importance of consulting on the specific details of this framework prior to its adoption. This pre-adoption consultation will ensure that all stakeholders have the opportunity to provide input and contribute to the design of the framework. Additionally, it is essential to incorporate sufficient flexibility within the service levels to accommodate more complex sites and innovative solutions effectively.

In the event that a developer encounters challenges in achieving the environmental incentives there could be a potential knock-on effect on DMEX scores. The ability to differentiate between various aspects of service and monies per scheme or connection remains crucial to maintaining a fair process.

Summary.

We express our support for standardised environmental incentive approach; however, we are concerned with the fixtures and fittings approach due to its limited capacity to ensure sustained and long-term usage of water-efficient components. There is a practical challenge in guaranteeing that payments based on environmental incentives will result in lasting water efficiency gains. The risk remains that, within a year, all the water-efficient fittings may be removed, potentially nullifying the desired reduction in Per Capita Consumption. To secure enduring and impactful results, additional strategies must be employed to effectively influence occupiers' behaviours over the long term.

In line with our commitment to promoting water efficiency, we have launched a new rising block charging system on a trial basis, engaging 1500 of our household customers. This innovative tariff structure incorporates a free allocation of water, followed by incremental price increases for various consumption blocks. By applying distinct prices to the first, middle, and end blocks of consumption, we aim to gauge how this tariff structure influences households' water usage behaviour. The trial will provide valuable insights into the effectiveness of this charging system in driving behavioural change and enhancing water efficiency among consumers.

In order to create a comprehensive and impactful approach to water efficiency, we urge Ofwat to actively challenge and engage other sectors, such as central and local government, as well as the agricultural sector. Encouraging water efficiency must be embedded across all practices and legislations, as this collective effort is essential for achieving sustainable and enduring water management practices. By collaborating with diverse stakeholders, we can effectively tackle water efficiency challenges at a broader level and create a more resilient and sustainable water future for our customers.

There is a priority need to enable water companies the powers to supply non-potable water, fit for purpose, which under current legislation and regulation isn't feasible. These changes need to enable water companies the powers to install and manage non-potable networks on development sites.