



ESP Water Limited
Bluebird House
Mole Business Park
Leatherhead
KT22 7BA

Generalenquiries@esewater.co.uk

Tel: 0330 123 4201

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Charging Team
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA
charging@ofwat.gov.uk

Dear All,

Ofwat Consultation - Environmental incentives to support sustainable new homes - ESPW response.

Thank you for the opportunity to respond to your consultation. I can confirm that this response is not confidential. As you know, ESP Water Limited (ESPW) is a new NAV having been appointed in July 2022 for our first development. We are growing quickly and have already been appointed to 25 NAV sites across England and our portfolio of future projects is similarly growing rapidly.

ESPW support the need to encourage, through developer and customer incentives, the requirement to achieve greater water efficiency and more sustainable drainage. However, any proposals to reform the environmental incentives for new homes must take account of the different regulatory regime that applies to NAVs and not further impede competition in the new housing market. It is not clear how incentives would be passed onto NAVs through the bulk charging tariff rules, and what protections would be in place to ensure that NAVs are not disadvantaged and that competition is not inhibited. An increasing number of new developments are being supplied by NAVs and to compete fairly with incumbents we should be able to promote these schemes to the Developers we wish to work with and receive the benefits for these schemes for doing so. The bulk tariffs charged to NAVs by incumbents must also reflect any additional costs (including incentivisation and policing, operational and maintenance costs) that would be incurred by NAVs, and which would, without suitable allowance, serve to further erode already slim margins.

Your consultation questions are in bold below with our answers beneath.

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

We are strongly supportive of your aim to encourage greater water efficiency and / or more sustainable drainage across all types of new development.

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

We are pleased that new appointees are recognised as important stakeholders and that Ofwat recognise that NAVs should have access to environmental incentives.

We would like to clarify that “transparent, stable and fair” should include financial fairness for all parties including new appointees.

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

As every development in Wales has a SuDS feature and so that a NAV can still charge surface water drainage (SWD) to its customers we would suggest that the SuDS feature itself should be regarded as separate from the SWD network when looking at charging mechanisms, otherwise it may not make the site financially viable for a NAV.

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

With regards to the Southern Water and Thames Water case study, it would be interesting to know whether this tiered approach is also applied to their bulk supply charges for NAVs. This would then mean that the cost of the long-term maintenance of these features is also covered.

The auditing described in the United Utilities case study is quite interesting and is a good approach initially with developers, but it raises a number of questions around whether there should be long term incentives for consumers to retain water efficient appliances so that the benefits of these water efficient appliances can be realised.

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

We agree that incentives should be more transparent across incumbent water companies and that there are advantages in these incentives being standardised where it does not inhibit innovation or competition in the new connections sector. Also, a tiered approach looks to have merit but must be easy to operate and audit. The example given in Table 2 may need to be adapted for different housing types for example, low rise housing versus multi occupancy, private properties versus community schemes, etc.

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

We agree that a common methodology would be advantageous and are supportive of a mandatory water efficiency labelling scheme.

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

Having bespoke incentives is generally a good idea as this supports innovation, but we would want some guidance on how this would apply to NAVs as we often do not have the financial ability to offer bespoke schemes.

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

We are supportive of reputational incentives if there is a mechanism for this to be offered through NAVs also, as developers are more often choosing to use NAVs rather than incumbents.

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

It is important that water companies have the confidence that any benefits from payment of efficiency incentives are realised and maintained. As such a process to ensure developer compliance as well as water company transparency will be required. We would like clear guidance on how the incentives will be passed through to NAV bulk supply tariffs. There are already mechanisms for reductions in tariffs associated with SuDS features albeit that this

varies between incumbents, but we would like to see this continue to be offered to NAVs should the Developer choose to deliver a scheme.

We are supportive of an audit process if it is proportionate to the size of the development.

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?

This could be through the infrastructure charge but however it is charged it should be transparent and consistently applied across all incumbents.

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

We would like Ofwat to promote greater consistency across incumbent companies and include in their charging rules guidance that encourages transparency and consistency. Also, NAVs can often be at a disadvantage through enforcement of reduced consumption by the incumbent through the Bulk Supply Agreement process. This enforcement does not appear to take place on incumbents own new developments and we think that this should be equally applied across all parties.

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

We welcome the focus provided in Section 5.5 of the consultation supporting new appointees and developer services markets and which recognises the risk of unintended consequences. Consequently, we wish to work with Ofwat and incumbents to produce a mechanism that allows NAVs to participate in offering valuable incentives to developers supporting these markets.

We think the way an incumbent offers these environmental incentives should be in DMex so that they are held accountable, and the principles are upheld.

Please do not hesitate to contact me on catherine.fearon@espug.com should you wish to discuss our response or have any further questions.

Yours sincerely,

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Head of Regulatory Compliance (Water)