



Independent Networks  
Association

Charging Team  
Ofwat  
Centre City Tower  
7 Hill Street Birmingham  
B5 4UA

Email to: [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk)

1 August 2023

To the Charging team,

I am writing to you on behalf of the Independent Networks Association (INA), in response to Ofwat's June 2023 consultation 'Environmental Incentives to support sustainable new homes'. I can confirm that this response is not confidential.

The INA represents the UK's Independent Network Operators which play a vital role in heating and energising homes and businesses, as well as providing water and wastewater services. Our members have delivered significant improvements in competition, choice and service for customers in the utility market and, together, own and operate utility infrastructure and networks that provide energy, heat, power, water and wastewater to over 4 million households and thousands of businesses right across the UK.

Our members support the need to encourage, through developer and customer incentives, the need to achieve greater water efficiency, more sustainable drainage and environmental initiatives. However, any proposals to reform the environmental incentives for new homes must take account of the different regulatory regime that applies to NAVs and to promote, and not further impede, competition in the new housing market. The proposal to channel these benefits through bulk charging tariff rules would be appropriate. However, as these charges are not open, transparent or consistent across incumbents in the first place, it is difficult to see what protections would be in place to ensure that NAVs are not disadvantaged, and competition further inhibited. Openness and transparency in all regards needs to be clearly set out and directed by Ofwat.

Some specific comments on one of the questions are below:

*Q1 and Q2. Do you agree with our proposed aim for environmental incentives? Do you have comments on the characteristics of good environmental incentives?*

We are very supportive of the aims of the proposed regulation, the tiers and that new appointees are included.



Independent Networks  
Association

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

Tariffs should take into account the initial and ongoing costs for any environmental features that are introduced. Examples are ensuring that measures have been concluded to account for any ongoing operation and maintenance costs.

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

We agree that bespoke tariffs will encourage innovation, but it is unclear how this can be applied to new appointees. Incumbents can recover costs over their price review period and socialise it over their sizable customer base. This is not possible for new appointees.

*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?*

Whilst we see that it could be a component of the infrastructure charge, the crucial factor is that it is clear and transparent and consistently applied across all incumbents. However, 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, further inhibiting competition. There have been two years of discussion without achieving any meaningful improvement in the transparency of incumbent's charges for new appointees. As 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 clear and transparent benefits for these schemes. Ofwat must ensure they direct that these incentives are open and transparent in charges to NAVs.

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

We have been arguing for some time now that all incumbent charges should be open, stable, and transparent. This should be no different. There is already a disadvantage that NAVs are under through the enforcement of the environmental incentives through the BSA. Some incumbents include and enforce through the bulk supply agreements with NAVs reduced consumption that is a result of the environmental incentives paid to developers. However, they do not all apply and or enforce the same restrictions and conditions to new developments where the incumbent builds or adopts the new water connections. This inconsistency can lead to an uneven competitive landscape.



Independent Networks  
Association

To address the disparity and ensure fairness, we propose the amendment to the current guidance on charging rules. Specifically, we recommend including a clause that mandates uniform application of environmental incentive requirements across all market participants. By doing so, we can eliminate the existing disadvantage faced by NAVs and ensure that both NAVs and incumbent water companies operate under the same standards, including in Wales, where historically, the market opportunities for NAVs have been somewhat curtailed due to the approaches taken within that region.

Moreover, the process of developing and maintaining these charging rules should involve active collaboration and feedback from all stakeholders. This will ensure that the guidance reflects the diverse needs and concerns of market participants, leading to more effective and sustainable policies.

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

We believe that D-Mex should be used to report environmental services and we hope this will be included in the proposed D-Mex consultation.

Yours faithfully,



Executive Director  
Independent Networks Association