
south east water

Environmental incentives to
support sustainable homes

South East Water response

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South East Water
Rocfort Road
Snodland
Kent
ME6 5AH



Pure knowh₂ow

Thank you for the opportunity to comment on this consultation. We broadly agree, and are supportive, of the proposals laid out in your paper. However, we are aware that more work needs to be done to understand the levels of incentive required by developers.

Over the last year we have attended several industry groups, engagement sessions and developer forums where environmental incentives have been discussed. It is clear from the feedback we have received that Developers are concerned that the cost to build water efficient homes will not be outweighed by the incentives that water companies can provide. There were also concerns that marketing houses with water efficient systems, such as rainwater harvesting, would be challenging and add to the cost of building new homes.

We think it is imperative that the industry has some time to explore the best way forward together, so that we all fully understand the cost implications to developers and what will work best.

Water efficiency incentives are relatively new, and we have very little data on uptake levels which make it very difficult to forecast for PR24. Companies need time to embed their schemes so that any forecast they provide has some data and rationale behind it.

Finally, we have also fed into the Water Regs UK consultation response which provides more detail around the issues for water regulations and customers in the longer term, such as maintenance of rainwater harvesting systems.

Number	Question
Q1	<p>Do you agree with our proposed aim for environmental incentives?</p> <p>South East agree in principle with environmental incentives and the need for a framework to help drive development of more sustainable homes. This needs to be underpinned with a real understanding of what will work for developers, otherwise we are likely to see very low uptakes. The feedback we have had from developers suggests that more work is required to understand the additional cost in the building water efficient homes and the workshops/engagement sessions we have attended suggests that some of the data being discussed is not reflective of the costs they feel they are likely to incur.</p> <p>We also need to be mindful of smaller developers, or one-off customers, who maybe do not have the resources available to them to install water efficient systems, the proposed model means they will be subsidising the incentives for other developers adding an additional financial burden which will be very challenging for them to absorb. Although we understand that this may have to be the case to drive the behaviour that is needed, there still needs to be a suitable guide path and mitigations to allow smaller developers time to adjust.</p>
Q2	<p>Do you have any comments on the characteristics of good environmental incentives?</p> <p>The characteristics listed, seem to cover a wide range of incentives. Having the incentives accessible to all developers, self-lay providers and NAVs is fair and necessary for any incentive scheme to work.</p> <p>We do think more work needs to be done as an industry to understand what developers can realistically achieve, when by and what level of incentive would be required to support them. Uptake of environmental incentives that are currently in place are poor, even with the higher-level financial incentives.</p> <p>The benefit of reduced carbon/greenhouse gas emissions could be emphasised more strongly and maybe an increasing selling point for developers as homebuyers’ environmental awareness increases, having said this some developers have expressed concern that marketing properties with a rainwater</p>

	<p>harvesting systems, for example, could be more challenging, particularly because the homeowner would be responsible for any future maintenance required.</p>
Q3	<p>Do you have any comments on the extent to which any environmental incentives could or should be adapted for implementation in Wales?</p> <p>No comment</p>
Q4	<p>Do you have any comments on the case studies outlined?</p> <p>It is a disappointing that Thames have only had a 15% uptake for the fittings approach in Tier 1. It stands out these were from single properties and not larger Developers. Looking at the wider picture Thames only had 60 applications in total and 90% of those were Tier 1.</p> <p>The tiered efficiency incentives at Southern water are new. Tiers 1 and 2 could prove popular for one off customers and smaller builders, although, they may have the same problem as Thames with the low uptake from larger developers. Tier 3 could prove unsuccessful due to the costs for the materials and the separate skill set required on site for installation.</p> <p>United Utilities scheme seem more simplistic, giving the developers, private house builders a chance to reduce their costs in the first instance by installing the fixture and fitting required. If this is not up to standard, they get a chance to rectify the issues, with relevant feedback from the auditors and then if they still have not rectified the issue, the Water Company can redeem the costs.</p> <p>Ultimately, we may not come to the right answer straight away (it is likely to be an area of evolution) but the incentive work carried out by companies already, and the case study information provided, will help improve incentive options moving forward.</p>
Q5	<p>Do you have any comments on our proposed standardised incentive tiers?</p> <p>We agree in principle to having a standardised framework incentive. We believe this will make it easier for customers to navigate.</p> <p>Water neutrality needs to be defined carefully so as not to incentivise unintended behaviour such as private abstractions which have an environmental impact (learnings from Southern Water’s Sussex North WRZ); the approach to offsetting needs to be designed so it is easy to deliver, cost effective and encourages a coordinated approach with water companies.</p>
Q6	<p>Do you have any comments on our proposal for a common methodology/technical standard to assess water efficiency?</p> <p>South East Water agrees with your common methodology.</p> <p>It is important that the fittings used are installed correctly and comply with the water regulations, it is also important that we engage with Water Regulations UK to make sure we look at any areas of risk and how we will mitigate them, for example we may need a longer audit programme to keep customer systems compliant and to alleviate the risk of contamination.</p>
Q7	<p>Do you have any comments on the details of our proposal for companies to offer bespoke incentives?</p> <p>We support this and recommend flexibility to encourage innovation. It might be that for a period of time the NCC continues with a water efficiency subgroup to look at innovation in this area and share best practice.</p>

Q8	<p>Do you have any comments on the potential for reputational incentives?</p> <p>We support this in principle, but we would not expect to have this in place for 2024/25. Developers, and companies, need time to put in place the right incentives and developers need time to make the necessary adjustments. We agree that incentivising developers to build sustainable houses is the right thing to do but it is a relatively new concept, and it is likely to take some time to develop it to a point where companies and developers are happy with the framework in place. It might be that you set a deadline for a reputational incentive to be in place and discuss the impact that this might have with developers directly.</p> <p>If this is adopted, it might be worth using a similar approach to Waterwise and potentially working with them to align it.</p>
Q9	<p>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.</p> <p>This is probably an area where companies need to have a common approach, otherwise it could prove very challenging for developers. The process for paying environmental incentive, could be after the connection is carried out and a regulation inspection/audit has taken place. It is likely that some companies will need to increase the number of regulations inspectors to monitor this but having it as part of the regulations process would make sense.</p>
Q10	<p>Do you have any comments on how high levels of compliance with the incentive technical standards might best be achieved?</p> <p>We strongly support the proposal to audit new homes to ensure they are compliant. We agree that this could be a percentage of properties and may depend on the tier they fit into.</p> <p>We also think that there would be benefit in a longer-term piece of work in the industry to see if the benefit of water efficiencies remains in place over longer period and whether certain tiers provide more longer-term benefits than others.</p>
Q11	<p>Do you have views on whether environmental incentives are best funded as an environmental component of the infrastructure charge or as a separate charge?</p> <p>There are benefits to both, but a separate charge would be clearer and ensure there is no confusion that it is replacing the income offset.</p>
Q12	<p>Do you have any comments on our proposal for guidance issued under the charging rules and how they are developed and maintained?</p> <p>We agree with your proposal for guidance issued under the charging rules. It seems sensible for the NCC industry working group to undertake the work for this document.</p>
Q13	<p>Do you have any comments on our approach for managing interactions with the regulatory framework?</p> <p>We agree with your approach and that it should be trialled it before it becomes part of D-MeX.</p>

Contact Us

South East Water
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Snodland
Kent
ME6 5AH

southeastwater.co.uk

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