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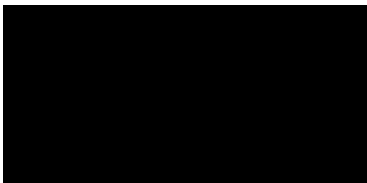
Dear Sirs,

Ofwat's consultation on 'Environmental Incentives to Support Sustainable New Homes'

We welcome the opportunity to provide our response to the above Ofwat consultation. The attached document provides Dwr Cymru Welsh Water's response to each of the questions posed within the consultation.

If we can provide any further assistance or clarification please let us know.

Yours faithfully,




Director, Business Customer Services

Dwr Cymru Welsh Water response to
Ofwat's consultation on 'Environmental Incentives to Support Sustainable New Homes'
July 2023

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

Yes, we agree with the proposed aims, and they are broadly in line with our wider environmental strategies and plans. A key aspect, as referenced in the consultation, is to ensure that any environmental incentives deliver the required outcomes on a permanent basis with minimal oversight.

Furthermore, it is vitally important to consider the whole cost (both capital and ongoing operational / maintenance costs including and any other implications or risks of implementing the solutions to meet the requirements) and where the burden for paying for this resides (e.g. developer customer or homeowner directly or via a management company). If this is not fully considered, then it could lead to environmental incentives having unintended consequences for the homeowner that could outweigh the incentive provided to the developer customer which would be inequitable.

Whilst we believe environmental incentives are a helpful contribution towards encouraging developer customers to deliver improved environmental outcomes, there are more reliable, effective and all-encompassing methods to accelerate and achieve them, some of which are referenced in the consultation.

For example, the Welsh Government introduced section 42 of the Flood and Water Management Act 2010 in 2012, which ensures that all new lateral drains and sewers that connect to the existing public sewerage system are adopted by the relevant water company (wholly or mainly in Wales) and meets defined standards. This is delivered by a Section 104 (Water Industry Act 1991) Agreement having to be in place after the design of the new sewerage system has been agreed and prior to its installation to ensure this is inspected by the water company.

As a result of this, we can ensure that the new wastewater networks connecting to our existing public sewerage systems are constructed properly and prevent infiltration of groundwater. These legal requirements have not been implemented in England and therefore new wastewater systems can be installed and retained in 'private' ownership with potentially no inspections taking place during construction e.g. by a water company or building regulation inspectors (the latter only typically focusses on plot drainage).

In addition, the Welsh Government also implemented Schedule 3 of the Flood and Water Management Act 2010, which has removed the right to connect surface water to the existing public sewerage system (section 106, Water Industry Act 1991). A developer customer now requires the consent of the Sustainable Drainage System Approving Body (SAB), and this mandates that any proposed connection to an existing public sewer is the last resort and other sustainable options (e.g. soakaways) have to be properly discounted first.

Since the legislation was introduced in 2019, the number of new surface water connections to our existing sewerage systems has been minimal, which has also coincided with a significant reduction in

the surface water networks that are put forward to us for adoption as this is now the role of the SAB. This legislation is not currently applicable to England although we are aware that the UK Government is intending to implement this in the short term.

Both examples clearly demonstrate that they have been effective in delivering positive environmental outcomes with no incentives being necessary. On this basis, it is clear that these successes would be delivered if new legislation is implemented in other areas (e.g. water efficiency).

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

Based on Figure 2 on Page 11, we suggest that long-term measures are a critical aspect of any environmental initiative as they should help to avoid interested parties targeting short-term gains to the detriment of longer-term, more sustainable improvements.

The rules and structure around incentives should also be flexible enough to allow companies to innovate and adapt to their specific circumstances. Accordingly, we suggest that a successful environmental incentive will have more focus on outcomes than specific policies and structure.

Thirdly, we suggest that an obvious, yet critical aspect of any environmental incentive is the scale of the net positive environmental contribution that it makes in the context of the resources, including financial, that it takes to deliver, as well as the wider context of the party's full environmental footprint. Environmental incentives should therefore be targeted in areas where they will have the greatest impact in the context of a company's full environmental footprint.

Whilst transparency is a critical factor of any incentive scheme, perhaps more important is its clarity, and the way in which its clarity of purpose and simplicity of mechanisms can capture the hearts and minds of the intended audience in order to drive behavioural change.

Finally, it is important that any environmental incentive must use the mechanisms most suitable for achieving its aims. For example, it may be that developer customers respond better to legislative changes (such as better enforcement of building regulations, or water efficient appliances and fittings), than relatively small financial incentives offered by water companies.

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

As stated in the consultation and above, sustainable drainage in Wales is already addressed by the prevailing legislation within which developer customers are required to develop Sustainable Drainage Systems (SuDS). On this basis, offering incentives to developer customers to comply with legislation would not be appropriate.

We proactively and regularly engage with all of the Local Authorities in our area on matters concerning water efficiency and drainage. Our involvement ranges from promoting Local Development Plan (LDP) policies to engagement on providing practical advice relating to planning application

consultations both as a Statutory Consultee in the Town Planning process, and in the context of SuDS legislation in Wales.

In 2017 we introduced a financial incentive for developer / business customers to encourage them to remove surface water from our existing wastewater networks. For example, where a development wants to connect its wastewater to our existing wastewater network but there is minimal or no hydraulic capacity to support it, then the financial incentive encourages the developer customer to identify existing surface water that connects to our wastewater network and implement a solution to remove it.

This then allows the new development to connect to the wastewater network and receive the financial incentive whilst delivering broader environmental benefits. This also normally results in a much smaller scheme being deployed compared to reinforcing the existing wastewater network, which reduces costs to the developer customer and minimises the other environmental aspects such as the CO2 involved in the delivery of hard engineering solutions.

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

We believe that the points we raise in our response to Question 1 above should be used to assess whether the incentives provide rounded benefits without resulting in any unexpected outcomes for homeowners in particular.

In line with our response to Question 2, the findings of the WRc analysis may be due to the fact that the sector in question may respond better to legislative drivers as part of a range of behavioural, reputational, and inspection / enforcement-based measures, than relatively small financial incentives offered by water companies as demonstrated earlier in our response.

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

Section 2.3 of the document recognises that the regulatory regime in Wales is different and so any environmental incentive should be considered in the full context of Welsh regulation and legislation.

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

We agree with the principles of using established methodologies and standards such as Building Regulations, but as the current arrangements are not achieving their targets, and in line with our response to Question 2, we suggest that at least equal consideration be given to the sustainable outcomes delivered by incentive schemes.

Secondly, whilst Ofwat and water companies are familiar with terms such as 'Per Capita Consumption', some developer customers may not be and so any incentive mechanism, as well as being transparent, must be simple to understand and clear in its intentions as per our response to Question 2.

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

As stated above, a critical factor of incentive mechanisms is that they focus on and achieve their intended outcomes. With this in mind, it is perhaps more appropriate to incentivise relevant parties on outcomes, rather than implementing a common framework as the flexibility would allow parties to develop incentives suitable for their particular circumstances.

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

Our comment here is about the balance between the environmental improvement delivered by such a mechanism compared to the industry, cost and resources employed in administering it. We are mindful that all of the costs borne by water companies in delivering services to developer customers are (generally) ultimately paid for by developer customers. Care must be taken to ensure that such a component does actually assist in driving environmental benefits which are both commensurate with the cost and the opportunity cost if investing in other areas to achieve better outcomes.

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.

In line with our response to Question 7, we believe that the mechanics of payment associated with environmental incentives to developer customers should be organised by water companies and not subject to additional rules and reporting requirements. This will help to ensure that companies have the necessary flexibility in designing incentives and recognises that mechanisms such as D-Mex sufficiently drive services in this area and support the necessary transparency of any incentive mechanism.

Depending on the nature of the inspection and enforcement required to ensure the long-term sustainability of the actions taken by developer customers, providing water companies with flexibility in this area will also allow them to ensure that any such arrangements are not perceived as a burden by developer customers.

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

As stated in our response to Question 2, and building on Ofwat's diagram in Section 2.2, technical compliance will be improved as a result of a range of strategies, however, further research should be undertaken to fully understand the motivation of developers to participate in such schemes before measures such as sampling and future disqualification are introduced in order to ensure that they are appropriate and will help to achieve the desired outcomes.

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?

No comment given the arrangements in our operational area are different to those applicable in England.

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

No comment given the arrangements in our operational area are different to those applicable in England.

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

No comment given the arrangements in our operational area are different to those applicable in England.