Waterwise
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21st September 2021

Dear Sir/Madam

waterservices@defra.gov.uk - Deadline 27th September

Consultation on a new strategic policy statement to Ofwat

Many thanks for the opportunity to respond to the above consultation.

1. **Has the Government identified the most relevant strategic priorities for Ofwat? If not, please provide details of the priorities that should be included.**

   No. We do not believe the Government has identified the most relevant strategic priorities for Ofwat.

   There is no mention of climate change and **the climate emergency** in any of the four headline priorities. This is a major omission. In every decision around how we manage water we should be considering how that decision helps us adapt to climate change and how it helps us reduce emissions. In particular we believe the sector has an important role to play in helping society to reach and **go beyond net zero**. We believe the SPS, including para 19, needs to be far more ambitious given the scale and urgency of the climate emergency. Although it is welcome, we believe that it is not sufficient for the companies to just reach net zero for their own operations given that around 4-5% of UK emissions arise from how we use the product the sector sells (i.e. water) in our homes and businesses.

   We suggest that the government includes a new strategic priority for the water sector on addressing the climate emergency through both mitigation and adaptation. This should include a specific expectation that Ofwat (and the companies) should be using their position to help wider society reach net zero. It could legitimately even be a high-level priority above the four others.

   We are also not convinced that Driving Markets to Deliver for Customers should be one of only four government strategic priorities. We believe that the use of markets is an approach or enabler of the other three priorities and not a strategic priority in its own right.

   We would prefer to see this strategic priority replaced by a new strategic priority relating to urgent and longer term action by the sector to address the climate emergency (see above).

In addition to these general points on the four strategic priorities we also have the following more specific comments on the wider set of expectations set out in the draft SPS.

Protecting and Enhancing the Environment

Section (para 16) on the Environment Bill targets fails to mention the proposed **statutory target on reducing water demand**. Reducing demand for water is a key element in addressing current and future unsustainable abstraction of water from the environment and has an important role in restoring and enhancing aquatic biodiversity including chalk streams

> *We suggest that a reference to the proposed Environment Bill demand reduction target be added to para 16.*

A Resilient Water Sector

We welcome the government setting out an expectation that Ofwat will hold companies to account for their contribution towards reducing personal consumption. However, it should be noted that whilst the National Framework SSG agreed that the 110 lppd target by 2050 should be used as the planning assumption they also highlighted that it was set in advance of, and **did not take into account**, the government's response to the 2019 consultation on policy measures to reduce personal water use which hadn't been published at the time (see SSG Paper 19 Updated Results - 10 October 2019 and SSG Paper 22 on Securing Demand Management Outcomes - 21st January 2020). The National Framework papers highlighted that **a more ambitious target** could be set depending on the nature of any supportive policy change by the government. The SSG agreed in January 2020 that "*a more ambitious 100 l/h/d target could be considered if further interventions are included such as tariffs, water reuse within homes and the government implements a range of policy changes such as product and building standards*". The government has now published its policy response and is taking forward mandatory water labelling and will publish a roadmap to improve the efficiency of existing and new homes.

> *We suggest that the reference to the 110 lppd planning assumption is amended to include 'at least 110 lppd by 2050', and that the government also states an expectation of Ofwat to take into account the recent Ministerial policy announcement in assessing longer term water efficiency ambition in company plans.*

We are pleased to see reference to the non-household water efficiency Action Plan and the expectation that Ofwat will work with trading parties and other stakeholders to ensure that it is successfully delivered. However, what was clear in developing the Action Plan is that Ofwat's **current regulatory framework** does not incentivise or reward efforts by water wholesalers to reduce non-household water demand. A combination of ODIs focussed on household water use and cost challenges have led

to many companies massively scaling back efforts to support demand reductions by businesses. Given that 20-25% of supplied water is used outside the home this misses a major opportunity to help deliver SPS priorities such as a Resilient Water Sector and to Protect and Enhance the Environment.

We suggest that the SPS makes it explicit that the government expects Ofwat to urgently address the issue of the regulatory framework disincentivising investment in non household water saving when considering the future performance framework for wholesale companies.

There is no mention or policy steer to Ofwat in connection with the forthcoming **Retail Price Review** process. This is a major omission given nearly a third of water consumption in England is by organisations using that retail market.

We would like to see the SPS specifically set an expectation of Ofwat that it will use the forthcoming Retail Price Review process to help deliver the government's strategic priorities in the non household market. Specifically, there needs to be an expectation that in the Retail Price Review that Ofwat will take into account the need for businesses to contribute to meeting the proposed Environment Bill statutory water demand target.

The section on a Resilient Water Sector deals first with water resources and then with drainage and flooding. They also tend to sit in different teams within water companies. However, technologies such as **rainwater harvesting and greywater reuse** offer potential benefits to both flood management and water resources as highlighted in this recent research.

We suggest the government highlights these multiple benefits in the SPS and sets an expectation of Ofwat that it will encourage water companies to look harder for opportunities to promote rainwater harvesting and greywater reuse with new and existing developments.

Serving and Protecting Customers

The strategic priority refers to water companies proving a **better and fairer service** for all. However, currently there are a majority of household customers who pay for water services based on what they actually use whilst a minority pay based on the size of their property. **This is unfair.** We need to move away from a two tier system and agree with CCW's position that "***metering is the fairest basis for water services charging and that all users should have this option***". Appropriate protections can be put in place for those who need them. In terms of better use of data to help protect and support customers (para 45) the richer data made available through smart metering can help customers better manage usage/bills and help companies improve the service they can provide to customers, including through more frequent billing and early identification of leaks.

We would like to see a stronger policy steer in the SPS on this fundamental building block of fairness - encouraging Ofwat and the companies to speed up

the roll-out of smart meters so that we can move away from the current two tier system.

Linked to the above point Para 46 refers to companies proactively raising awareness of support for HH and NHH customers including before they fall behind in their payments. The recent CCW report into ending water poverty highlighted that, as well as offering financial support, water companies should also work with **customers in vulnerable circumstances** to help them reduce their utility bills through reducing water (and energy) consumption and/or fitting more efficient devices.

We would like to see p46 amended to include reference to the role of water companies in helping vulnerable customers reduce their utility bills through water efficiency.

In terms of protecting **small business customers** (para 48) this is an important issue and we had anticipated that the expectations of Ofwat in the SPS would be clearer. The majority of non-household water users only consume similar levels of water to households. Their water bill is not a significant element of their expenditure and it is not surprising that many have not engaged with the retail market and seen little benefit from it. As a result small business customers are missing out on important wider services such as water efficiency advice and this has been exacerbated by most water wholesalers stepping away from promoting water efficiency to non household customers since 2017.

There is a lack of any reference to **public campaigns** by the water sector in this section or elsewhere in the SPS.

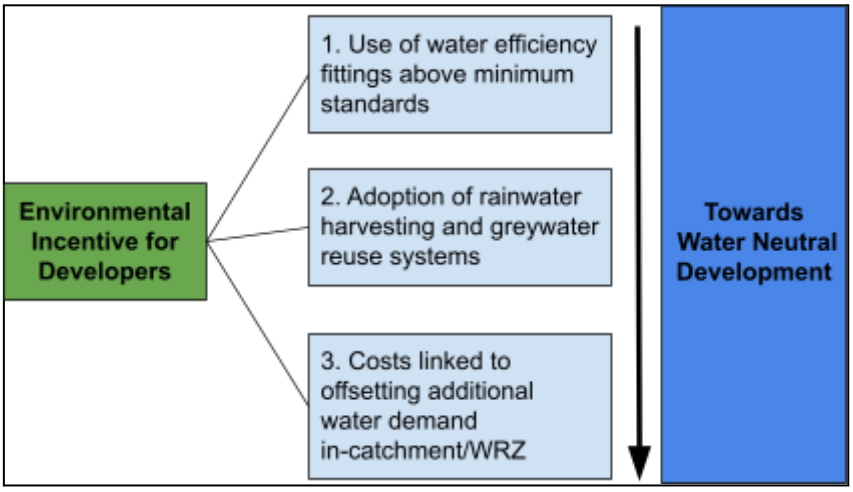
We would like to see a clear steer from the government that it expects Ofwat to require the water companies to collaborate on campaigns to raise awareness and change behaviours on issues of national and local importance such as water consumption and flushables and to evaluate and report back on these campaigns.

Driving Markets to Deliver for Customers

We support the expectation set out in the document for greater **collaboration between water companies and housing developers**, including to help promote sustainability and environmental protection. Whilst we want to see the government requiring developers to build much more water-efficient houses and commercial buildings through more ambitious building regulations, we do also support water companies offering environmental incentives to developers and New Appointments and Variations (NAVs) to promote both water efficiency and sustainable drainage beyond the regulatory baseline.

We are pleased to see an expectation that Ofwat further promotes sustainability and environmental protections, but this statement is very vague. The Government could support Waterwise's recent proposal to Ofwat that the sector

trial a three tier national environmental incentive scheme in AMP8 to promote water efficiency in new development including an aspiration of ***water demand neutrality*** *for large-scale development in seriously water-stressed areas.*



2. **Does the strategic policy statement effectively set out the government's expectations of Ofwat in supporting delivery of our priorities? If not, please identify where these expectations could be made clearer.**

   As a general comment, whilst the SPS is good in terms of high level statements covering a large number of areas, and does give greater prominence to the environment and water efficiency than the previous SPS, it says very little about the specifics of what the government expects to be achieved by the industry by the end of the next investment period in 2030. Even with the framework of independent regulation, we believe this could be made clearer. The relative importance or priority across the areas covered in the draft SPS is also unclear. Exceptions are the expectations on leakage and household consumption, which are two of the few areas where what is expected is made relatively clear. However, both of these are areas where others had already set targets or expectations which are simply echoed in the document.

   The result is that crucial decisions on priorities for investment in PR24 within the long list of issues covered in the SPS will sit with Ofwat rather than the government. We saw in PR19 the effect of uncertainty on priorities and expectations which led in part to a number of companies going through the CMA appeal process.

3. **Do you consider that this statement to Ofwat is clearer and easy to understand? If not, please identify any areas that could be clarified.**

   Generally we do consider the statement to be clear and easy to understand.

However, in the section on a Resilient Water Sector (page 11) Ofwat is asked to challenge the companies "*to secure the needs of current and future customers in a way which delivers value to customers, the environment and wider society over the long term*". There is also a challenge to deliver in a way which offers "*best value for money over the long term*".

We believe that resilience and 'future needs' should be framed in terms of the relevant needs of customers, the environment and wider society...not just customers as in the current wording. We are also concerned that the interchangeable use of terms like value, best value and best value for money needs to be far clearer/tighter especially given the CMA appeal issues in PR19 - we suggest that where phrases such as 'should increase' or 'should improve' or 'more' are used, or similar comparators expressing ambition, baseline references should be set - otherwise these statements will not have measurable impact, if any.

Regards

NJR

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Who is Waterwise

Waterwise was founded in 2005 and is the leading authority on water efficiency in the UK. We are an independent, not-for-profit organisation, receiving funding from supporters across and beyond the water sector and wider sponsorship and research projects. We like to be at the front, leading and supporting innovative efforts to realise our mission; that water will be used wisely, every day, everywhere.