Waterwise
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10th December 2021

Dear Sir/Madam

PR24 and beyond: Long-term delivery strategies and common reference scenarios

Many thanks for the opportunity to comment on Ofwat's approach to long-term delivery strategies for PR24 and beyond. We have focused our response on those aspects most closely related to Waterwise's vision that water is used wisely, every day, everywhere.

Our key points are:

- Care is needed that **adaptive planning** doesn't dampen demand-side ambition or the level of investment needed to deliver it.
- **Scenario testing** needs to ensure we look further than just bill impacts to reflect the benefits of environmental and societal gains. It must also avoid risking intergenerational unfairness by focussing too much on bill prices.
- We support the **common reference scenarios** but would highlight that demand is highly connected to the others and expect to see this recognised in the plans.
- We encourage much more ambitious **smart metering** scenarios under the technology scenarios.
- **Demand scenarios** should be described as 'higher demand' and 'lower demand' to ensure clarity that the measures outlined only go some way to achieving demand reductions.
- Encourage addition of **non-household demand strategies** within the low demand scenario to encourage ambition in this neglected area.

1.0 Adaptive planning - adaptive yes but keep urgency for demand reductions

Overall we welcome Ofwat's approach which recognises the importance of creating a mechanism for long-term planning which is vital given the challenges, particularly water scarcity, that we know we face. We are pleased to see that it also includes recognition of the need for these plans to be adaptive, and Ofwat's prior assumption that the strategies will need to be modified in the future.

We see this flexible approach to be vital when considering water demand, as has been demonstrated clearly in the last couple of years due to the pandemic - that consumer behaviour can alter rapidly and it is important that companies have the ability to change course and adapt quickly where necessary. However we caution that there is a risk with adaptive strategies of actions being put off, potentially until they are too late. We need to be ambitious now and encourage everyone to consider the relatively low costs actions raised by the Chair of the Senior Water Demand Reduction Group as needing to be early priorities for investment.

We support the importance of taking an adaptive approach for planning on wider interventions, not just large enhancement investments. In particular we are pleased to see on page 14 the reference to behaviour change to reduce water use. Adaptive strategies should ensure early no regrets options are progressed. Demand management is one of these as it is relatively low cost and helps deliver other benefits as well as securing water supplies so the strategy must not weaken ambition in this area.

Much of this area is still being researched and until wide scale smart metering is implemented (see also Section 3.0 below), being able to evaluate the impact of behavioural change activities and campaigns is very difficult with many factors impacting on the success or otherwise. Context is everything with behaviour change, and therefore it is important that where used there is recognition that successes may not always sustain, and likewise failures may not last. These types of interventions may need to test and adapt regularly, and even during a Price Review period as well as beyond to 2050. Evaluation of water efficiency impact of campaigns is a really key part of the toolkit to drive behaviour change in the sector.

2.0 Scenario testing - climate justice and intergenerational fairness important

The use of scenario testing is supported and we are pleased to see that demand has been specifically included as a common reference scenario.

At Waterwise we are passionate about recognising the need to ensure climate justice is part of our planning for the future. Therefore we are pleased to see Ofwat has highlighted the need to ensure the strategy delivers fairness between current and future customers. This is

why demand reduction must be a vital part of our current plans now, so that future generations are not shouldering the burden of current levels of demand.

With this at the forefront of our thinking, we would like to see Ofwat reflect on the difficulties of intergenerational engagement, particularly around willingness to pay. On page 11 there is reference to the Blue Marble research which found that customer research relating to very long-term planning and future scenarios was one of the least appropriate areas. But then on page 22 an expectation is set to show that customers consider forecast bill impacts of the long-term strategy to be acceptable. We highlight this as an area that might need greater attention and that input is sought from researchers to provide recommendations on how to ensure decision biases of customers today, such as 'psychological distance', are not detrimental to tomorrow's society. In addition, in terms of climate justice and today's customers, we urge the sector to ensure they consider the intersectional impact of systemic biases on their customers collectively.

Linked to this we note that the first paragraph on page 19 talks about setting out the estimated bill impact. This is important, but alongside this we would like to see the impacts on society and the environment laid out too, as the cost/benefit perspective needs to go beyond just bills. It is important that we do not risk not investing today in areas that will have significant long-term costs for future generations, especially when that investment has potential for huge additional public value benefits too - noting as an example that National Trust research found that for every £1 councils spent looking after parks, £27 in societal value was generated for people.

On page 22 (final paragraph), Ofwat expects the strategies to consider a range of scenarios to test different levels of affordability in a company's region. Taking a perspective across England and Wales, we would note there may need to be some alignment of the scenarios as there is potential for geographical impacts of changing patterns to then impact neighbouring (or other) companies. For example, the inability to meet resource needs in one area, could lead to a focus on housing growth instead in a neighbouring catchment.

3.0 Common reference scenarios - general

Looking at the common reference scenarios we can see that across all of these, but in particular climate change and technology, there will be interdependencies with water demand. Page 27 of the document outlines that the impact of these interdependencies should be presented and the approach to adopt to do this. Waterwise would be expecting to see demand feature in these and encourage companies to ensure the connections are clearly presented.

We were very disappointed to see smart meter penetration of 100% by 2050 as a high technology scenario. This is far too long in the future and the technology is already proving

to be a cost effective solution supporting demand reduction, customer engagement and network management. We need to be more ambitious. We recommend that the high technology scenario should look at smart meter roll out as soon as practicable, and by 2035 at the latest. The low technology scenario should then include 100% smart meter penetration by 2050.

For more information on the cost-benefits of smart metering and why Ofwat should be encouraging faster take up please read the report here. The new research from Artesia and Frontier Economic for Arqiva shows a very positive investment case right across England and at each water company level for a smart meter in every home, and the new Waterwise research for Arqiva shows customers are highly-disposed towards smart meters if they are free and offer financial benefits.

4.0 Common reference scenarios - demand

As stated earlier, we welcome that demand has been included in the common reference scenarios. However, we feel the activities stated do not lead to the ambitions we need across the country on reducing water demand given the future deficit of 3.5 to 5 billion litres a day that is predicted.

While we agree that companies have some ability to influence reductions in household demand, and consumer flushing practices, there are many other organisations, in particular Government, manufacturers and society as a whole that will have more influence - potentially counteracting efforts by the industry.

To ensure clarity for all readers we would suggest the language is changed to be ‘lower demand’ and ‘higher demand’ as the introduction by 2025 of the water labelling is an important, but small step towards low water demand. There is so much more that needs to be done to help us realise a truly low demand scenario.

The recently published letter from Nicci Russell acting as independent Chair of the Senior Water Demand Reduction Group includes more than 40 recommendations to Ministers and the sector that could be referenced as supporting a lower demand scenario.

For example, business (non-household) customers use around 30% of water supplies, but to date there has been insufficient focus by customers, wholesalers or retailers to reduce this demand - despite it being an early promise for the market. There are some structural barriers in place which have contributed to this. Including activities such as mandatory reporting of water efficiency progress for businesses within the lower demand scenario will help focus attention in this neglected area.

The Senior Water Demand Reduction Group can play an important role in reviewing progress on demand management which can feed into the adaptive pathway approach that Ofwat has presented.

We would welcome the opportunity to discuss this further with Ofwat and as we are developing the Water Efficiency Strategy 2.0 ready to publish in the summer, it would be welcome if reference could be made to the activities and ambitions of this.

If you have any questions on our response please do get in touch.

Regards

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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.