Waterplus

[redacted]

waterefficiencyfund@ofwat.gov.uk

22nd September 2023

Dear Sir/Madam,

Scoping the Water Efficiency Fund: High level consultation

Thank you for providing us an opportunity to comment on the High Level proposals for the £100m Water Efficiency Fund. We are encouraged by the early considerations raised throughout this consultation and look forward to engaging throughout its development.

Water Plus operates as the largest Retailer within the Non-Household Water Retail Market, and our experience engaging with our Business Customers has provided us with a high level of insight into potential Water Efficiency and Demand Management measures. In our view, successful engagement with the Non-Household Market will absolutely require effective collaboration with Retailers, as we are uniquely positioned to provide knowledge and specialised expertise of the needs of our customers and how these have evolved since market opening. At a time where there is lowest public trust in wholesalers, we also represent the most effective form of communication to this significant customer base as it is our role to retain a trusted, consistent & dependable relationship with Business Customers.

Given this expertise, Water Plus are highly motivated to engage with the Water Efficiency fund however we are concerned that the current proposal doesn't best encourage or utilise Water Retailers to engage.

We have endeavoured to respond to the listed questions in the appendix below, however in summary our key perspectives are as follows:

- The approach to only fund a small number of initiatives that operate at scale may be prohibitive to many potentially Retailer led applications, we believe that there are potential smaller scale projects that could deliver immediate scalable benefit if funding were made available. There is currently a clear gap in available funding, where existing funds (for example the Market Improvement Fund) are limited in the scale they can offer which prevents the application for 'medium' scale projects.

- As Water Retailers represent an excellent source of insight into Non-Household Customers, as well as an effective avenue for communication and engagement at scale, it is crucial that they are engaged on initiatives for these businesses. Any proactive role to be played by the Retailer would likely require additional funding or resourcing.

- Any approach to segmentation of available funding should be informed by potential value. Water Plus believes that there is greater proportional potential for Water Efficiency Savings in the NHH Market, and as such believe the availability of funding to this segment should not be limited by percentage of customer numbers or volumetric consumption.

- Whilst we support the fund encouraging non-market participants to engage, some degree of direct market knowledge will be required. We would desire controls to ensure non-market participants to require direct collaboration (for example as a sponsor, or a co-applicant) with a Water Retailer or Water Company to receive funding. Our role as the Retailer, maintaining the relationship with the customer, places us in the best position to communicate with the customer base which further supports such a requirement.

We are keen to continue engaging with Ofwat on the Water Efficiency Fund and believe that Water Retailers have a crucial role to play in encouraging Water Efficiency. We believe that this fund represents an opportunity to better ensure that Retailers are funded and incentivised as a collective to drive efficient market outcomes.

If you wish to discuss any aspect of our response in greater detail, do not hesitate to contact me or the Water Plus Regulation team at [redacted]

Thank you and regards,

[redacted]
Regulation Manager
[redacted]

Appendix 1: Consultation Questions

1. Do you support the objectives of the fund? How could they be improved?

Water Plus broadly supports the objects proposed for the Water Efficiency fund, as we agree that funding effective and innovative solutions with demonstrable potential for large scale will provide value for customer money. We are encouraged to see a strong intention to promote collaboration, both cross-sector as well as inviting external expertise.

We would however raise the challenge that there are a number of demand management or Water Efficiency approaches that would not require significant innovation or additional expertise but would instead simply require funding. We would encourage Ofwat to consider funding all initiatives where there are clear potential Water Efficiency gains accessible.

3. What precedents are you aware of that could help guide the design of the fund?

Water Plus are not aware of any additional precedents that could help guide the design of the fund. We would instead advise Ofwat to consider the lessons learned from, and strengths and weaknesses of, the existing Ofwat Innovation Fund and the MOSL led Market Improvement Fund.

Of note, we would identify that there are significant opportunities to expedite the availability of funding to ensure any potential benefits are able to be achieved in a timelier manner. These other funding mechanisms have typically included significant lead times, and the arduous processes involved have potentially led to delays in the implementation of effective policy and action that may not be to the benefit of the market.

4. Should the fund be divided into segments? If so, how could we best do this to make it as effective as possible?

It is our view that the proposed approaches to segmentation do not necessarily represent a benefit to the market. We do not believe that a geographic segmentation maintains a clear business case, as much of the benefit to be gained would be transferrable between regions upon completion and the individual merit of any application should instead be considered.

As such, based on the current proposals we do not believe segmentation of the fund would be required. We do however believe that segmentation may provide value provided it is supported by further analysis, for example we would identify that there is some distinction between SME customers as a segment requiring different solutions to single site industrial customers. Whilst we do not believe geographical segmentation to be a priority, we would encourage further analysis of other segment types.

5. Where do you think the greatest demand reductions could be made? What examples or evidence can we draw from to make sure the most important areas are targeted?

It is our view that the non-household segment of the market represents an area where there is high potential for demand reduction, particularly in relation to a 'per customer' basis. There are a number of 'high volumetric' users in the business sector, who collectively represent the majority of non-household volumetric consumption (3% of users use 70% of the non-household market, representing 20% of total consumption) whilst only representing a small number of customers in the total market. The high volumetric usage of these customers not only presents greater individual opportunity for demand reduction, but also potentially represent a larger possible reduction at a lower cost due to the lower number of individuals involved.

This potential for individual saving is further supported by a clear desire to engage amongst the customer base. In an independent survey of 733 of Water Plus customers, 55% of our customer base identified that saving water is either important or very important. Our experience in the market has shown that there is definite appetite for Water Efficiency measures, with customers keen to engage however many of these opportunities have not been possible on a commercial basis due to a lack of funding. Our knowledge of the industry and the customer base would enable us to provide a key link between funding and opportunities to deliver the most cost-effective water savings in a short time frame.

Due to the high level of individual consumption and customer desire to engage, we believe the non-household market represents a critical part of any drive for Water Efficiency. Engaging, funding and incentivising Water Retailers to engage in Demand Management processes will be key to driving reductions at scale.

6. <u>Do you support our current preference for funding a small number of large initiatives?</u>

Whilst we acknowledge the value of a smaller number of larger initiatives enabling a higher level of engagement and analysis of each project, we do not believe this would outweigh the potential benefits a number of smaller initiatives could drive to the market. An approach to require immediate scale, rather than simply the potential to scale going forward, would prevent a wide array of possible Retailer led initiatives and trials with their customer base that could provide market intelligence, awareness and best practice going forward.

As Retailers are excellently positioned to encourage Water Efficiency with their customer base, yet conversely ill-funded and effectively incentivised (within the current pricing restrictions) against engagement, we view any potential to exclude Retail engagement as a poor outcome for the market. We would not support an approach that excludes smaller initiatives, and instead believe that a clear set of benefit requirements at the application stage would best ensure the efficacy of the program whilst not limiting innovation and improvement.

Water Plus believes that we have the potential to analyse data to identify immediate opportunities to engage should funding be made available. It is our view that several, low-cost projects would be possible that could deliver clear benefit quickly if delivered at speed. Through a combination of data, expertise and funding a rollout of simple Water Efficiency measures at the highest consuming sites could realise significant water reductions even without significant technical development. We believe that co-ordinated strategies of existing technologies should also be considered as part of this fund.

8. <u>Do you support our current thinking on eligibility and scope? How could it be improved?</u>

Water Plus broadly supports the proposed considerations in relation to eligibility and scope, at a headline level we believe these are the appropriate criteria and would support further development. We would however raise some concern that certain criteria, for example the “legacy” requirement could potentially prevent cost effective immediate solutions from being considered.

We would encourage Ofwat to consider a wider array of applications and judge them on their total merit, rather than requiring each of these criteria in isolation.

9. <u>How can we most effectively bring in expertise from other sectors and disciplines while also making use of and nurturing the expertise that already exists in this sector?</u>

It is our view that the Water Efficiency Fund represents an excellent opportunity for collaboration, promoting collective discussion and analysis to drive industry wide improvements. We believe that Ofwat should encourage this approach, enabling community discussion and opportunity to analyse outcomes throughout the project.

10. What are your views on whether the involvement of water companies in England and Wales should be a requirement or whether the fund could support initiatives with no involvement from water companies?

It is our view that a requirement to include 'Water Companies' in any application could potentially be prohibitive in the case of a Retailer or Third-Party initiative, which is difficult to justify in the case of a demand management solution for the non-household sector. We would instead propose a requirement to engage with a trading party licenced to operate in the market, either a Water Company in the case of the domestic market or a Licenced Retailer in the non-household market.

The requirement to include a market participant, either Water Retailer or Wholesaler, would additionally have a benefit of limiting the potential for confusion or disruption that could emerge from several individual companies sending uncoordinated messaging. Through the use of a single focal point with each customer base, communication can be more effectively managed and streamlined.

This approach would more effectively enable innovation, removing the potential barrier of requiring Wholesaler support when dealing with a Retailer customer base, whilst also ensuring that any initiative retains a level of market knowledge and insight to deliver at scale. It is our view that any customer facing initiative would require engagement from the relevant trading party to be effective, and as such believe this collaboration would be crucial.

11. What sort of governance do you think would best support this work and who should be involved?

We encourage Ofwat to consider the possibility of a steering group of market participants, including Water Retailers and Water Companies, to control the overall budget. Trust and transparency will be critical given the potential competitive pressures in the market, and the size of the funding available will require significant oversight.

17. How can we best create a legacy beyond 2030?

Water Plus believes that, from a non-household perspective, the best way to create an effective legacy beyond 2030 is to ensure that Retailers collectively are better funded and incentivised to promote Water Efficiency. We are encouraged to hear some discussion of alternative tariff structures and incentive schemes that would provide some support in this area but believe more will be required to drive the right outcomes. As Retailers maintain a customer base with a significant proportion of volumetric consumption, ensuring that these market participants are better resourced and engaged on Water Efficiency would lead to clear long-term benefit.

We would additionally raise the potential for Water Saving solutions (e.g. water harvesting, grey water recycling) should be embedded as a priority for new developments. To effect long-term change, we believe that the market should push for mandatory levels of water efficiency in construction standards to reduce the risk of water scarcity continuing to grow.

18. Do you support the idea of a scoping study to help focus the fund? If so, what should this look at?

Water Plus support the proposal of a scoping study to help focus the fund and would been keen to engage with Ofwat in any such approach. We believe that any such study would need to include Retailers, particularly those of significant size.

We would note that we have identified several customers that would be worth inclusion in any such scoping exercise, for example Tesco, and would be eager to involve them in the process.

19. Do you have any other relevant views or perspectives that you would like to share?

Water Plus do not have additional views or perspectives at this stage, however we will continue to review and engage with this fund throughout its development.