Strategic Panel Roundtable 02

Delivering Water Efficiency

This report provides a summary of the discussions from the Strategic Panel (the "Panel") roundtable held on **24 May 2023** via MS Teams.

1. Attendees

- Trisha McAuley (TM), Strategic Panel Independent Chair
- Andrew Beaver (AB), Strategic Panel Wholesaler Member
- James Cleave (JC), Strategic Panel Retailer Member
- Rick Hill (RH), Independent Strategic Panel Member
- Shaun Kent (SK), Affiliate Strategic Panel Member, Ofwat
- Mike Kiel (MK), Customer Representative Strategic Panel Member
- Paul Smith (PS), Independent Strategic Panel Member
- Dan Mason (DM), Affiliate Strategic Panel Member, Ofwat
- Pamela Taylor (PT), Independent Strategic Panel Member
- Adam Richardson (AR), Strategic Panel Secretary

2. Other attendees

The full list of attendees (other than Panel members) can be found in the Appendix to this report.

3. Introduction

- PT welcomed all participants and thanked them for their attendance, noting that the aim of the discussion was to engage with Trading Parties as early as possible in the development of the Panel's work on water efficiency.

- PT noted that delivering water efficiency was one of the three key outcomes for the market that had been identified by the Panel and that success in this area would mean the market was at a point where market participants are able to understand and use water resources efficiently and where they are incentivised to do so.

- PT further noted that there was a lot of work on water efficiency currently being undertaken, the fruits of which could be seen in the DEFRA non-household water market nine per cent consumption reduction target, and that a key question for the Panel was what it could do in this space that was not already being done and would help to drive improved outcomes. In this context, PT stated that it was the Panel's intention to support the work being done by the Retailer-Wholesaler Group ("RWG") and that it was likely to commission a report on how other geographies and industries are addressing resource efficiency challenges. The purpose of the report would be to help inform the future direction of the market beyond addressing immediate challenges.

4. Framing Water Efficiency

- Liz Darcy ("LD") provided an introduction that framed the context of the current water efficiency related challenges and opportunities in the non-household water market.

- At a high level, an additional 25 per cent of the current daily volume of public water supply will be needed in England by 2050 and without action to increase supply or manage demand, every region in England would run into water deficit at some point between 2025 and 2050. The role of water efficiency initiatives was to understand and manage the demand side in order to deliver sustainable reduction in consumption and smooth peak-time demand.

- At market opening, water efficiency was one of key outcomes the non-household market was expected to deliver. However, despite most retailers offering water efficiency services, take up has typically been low. An Economic Insight report which was commissioned and led by the RWG Water Efficiency Subgroup and funded by the Market Improvement Fund found that there was a gap between the economic and societal value of water. The report identified customer awareness and engagement and willingness to pay for water efficiency services as a key gap area and noted that once customers are engaged and willing to pay then solutions need to be available to them that are targeted to their needs, and they also need feedback mechanisms that deliver consumption data, so they are aware of usage and appropriate incentives to reduce consumption.

- Changing customer behaviours and attitudes to water efficiency was likely to take time (as it had in other geographies and industries). However, the current drought context means that the time available was likely to be short and it would be better for industry to invest the money in demand reduction initiatives now on a proactive basis to try and prevent severe drought rather than waiting and being forced to act reactively.

- LD highlighted the good work currently being undertaken by the Data Cleanse Service, Strategic Metering Programme and MIF projects aimed at getting better data into the market as well as the water efficiency solutions being tested, including by MIF projects, that demonstrate the opportunity for the non-household market to deliver demand reduction and the water efficiency targets and funding being driven by Ofwat and DEFRA. The current challenges and gaps in influencing water efficiency, such as driving increased engagement by non-household customers and incentivising collaboration between retailers and wholesalers to deliver non-household consumption reduction targets, were also highlighted.

5. Workshop 1: Defining Water Efficiency

- PS opened the discussions in Workshop 1 (how water efficiency should be defined).

Summary of Trading Party discussions:

- It was suggested that sorting potential water efficiency initiatives into ‘changes that stop wastage’ (e.g. reuse of grey water) and ‘lifestyle changes’ (e.g. shorter showers) would be a useful distinction. The potential for a definition that emphasised customer ‘lifestyle changes’ to actively disengage customers was raised as a risk.

- ‘Water going into a business being used efficiently through efficient devices and prudent use’ was offered as a definition of water efficiency and the importance of defining water efficiency in a way that captures efficient usage as well as reduced consumption was highlighted, given the anticipated increase in non-household consumption that would sit alongside economic growth and decarbonisation.

- Another definition offered was that ‘Water efficiency encompasses water conservation and improvement of water management practices’, although there was a suggestion that this definition would need to be tweaked ensure it was also relevant for smaller non-household customers where water efficiency would be delivered primarily by fixing customer-side leakage (e.g. leaky loos).

- Two further potential definitions were put forward:

  - ‘Efficient use of the water entering a property or site’; and

  - ‘Achieving necessary and desired outcomes using as little water as possible’.

- Issues around customer understanding of leakage and their role in addressing water wastage through leakage were highlighted as there is a perception that customers see leakage as predominantly an issue for water companies to tackle and do not realise the significant volume of water being wasted through customer-side leakage. In this context it was stressed that Ofwat had already set clear definitions for leakage and business demand (with customer-side leakage clearly included as leakage and not part of business demand).

- The water efficiency metric developed as part of the UN Sustainable Development Goals (UNSDG Indicator 6.4.1) was highlighted as something that the Panel workstream on water efficiency should consider as the project develops.

6. Getting Granular Consumption Data

- Martin Hall ("MH") provided an overview of the work currently being taken forward by the Strategic Metering Programme (which is set out in the Strategic Metering Roadmap) to improve the delivery of granular consumption data (either hourly or quarter-hourly data) into the non-household market and the centrality of this data to water efficiency initiatives.

- Nearly 90 per cent of the non-household market's 1.2 million customers have water meters. Of these, 75 per cent need to be read manually, 20 per cent have advanced technology that can be read by a device when walking or driving by and 5 per cent are smart meters that are able to capture granular data and send it via a cellular network.

- Accurate, timely consumption data from meters is key to: (1) accurate, consumption-based billing; (2) identifying and fixing leaks and wastage (e.g. through continuous flow alerts); (3) identifying water efficiency opportunities; and (4) developing innovative tariffs.

- In order to deliver the level of available granular consumption data in the market, investment in enhanced metering technology is required as well as further work to ensure that the market is correctly structured (and has the technical capacity) to share a large volume of granular data.

7. Retailer Wholesaler Group (RWG) Water Efficiency Subgroup

- Oli Shelley ("OS") provided an overview of the work being undertaken by the RWG Water Efficiency Subgroup, highlighting what the Subgroup saw as the current barriers and issues to delivering water efficiency.

- On the customer side the barriers to water efficiency included:

    - a lack of awareness of their role in addressing the issue of water scarcity;

  - the lack of a clear imperative to act; and
  - inadequate consumption data.

- On the wholesaler side the barriers to water efficiency included:
  - the structure of the Asset Management Period 7 water efficiency performance commitment;
  - the loss of a direct relationship with non-household customers; and
  - concerns that collaboration with retailers on water efficiency would contravene UK competition law.

- On the retailer side the barriers to water efficiency included:
  - a commercial disincentive to reduce consumption;
  - the limited competitive advantage seen to date from enhanced water efficiency service offerings; and
  - the lack of funding for water efficiency.

- OS outlined the work the RWG Water Efficiency Subgroup had undertaken to date as well as the RWG Water Efficiency Roadmap which was currently being reviewed to take account of recent and ongoing developments (such as the Retail Exit Code Review and Price Review 24). OS also highlighted the RWG Water Efficiency Subgroup's 2023/24 objectives which are:
  - the development of a menu of options for retailer-wholesaler collaboration on water efficiency;
  - the development of a water efficiency measurement process / mechanism enabling immediate delivery ahead of smart meter roll outs making granular consumption data more widely available;
  - the creation of a water industry 'water efficiency group' with nominated representatives from each wholesaler and retailer that can act as the primary point of contact for collaboration on water efficiency; and

  - to undertake further research to understand more about customer motivation for action on water efficiency and to enable the development of options to deliver incentives for action.

8. Workshop 2: Delivering Water Efficiency

- PS opened the discussions in Workshop 2 (how water efficiency could be delivered).

  Summary of Trading Party discussions:

- The work being undertaken by some wholesalers to enable water efficiency was praised as outstanding and the importance of wholesalers and retailers working collaboratively was described as key. However, different wholesale regions were moving at different rates, and it would be important to consider how to get all wholesalers looking at water efficiency in the same way. To this end, establishing a single definition for water efficiency and a single methodology for measuring it would be a huge, and extremely useful, achievement.

- Creating a consistent approach to and/or consistent options for water efficiency across the market that provided a balance between innovation and simplicity for customers and enabled customers and retailers to understand water efficiency offerings and access them with as few barriers as possible was suggested as something that would help to accelerate the uptake of water efficiency initiatives. If a consistent approach could not be achieved, then highlighting regional differences in water efficiency might help drive home the opportunities in this area.

- While the drivers for water efficiency were clear (as it is in everyone's interests to find a solution to manage an increasingly scarce and essential resource), the role of enhanced customer segmentation to facilitate understanding of how to engage with, support and incentivise customers from different segments would be important.

- Ensuring that industry water efficiency initiatives were scoped and targeted correctly would be important, with where responsibility for actions lies clearly defined. For example, while retailers could help to identify customer-side leakage it is not realistic to expect retailers to fix that leakage (which would require a plumber).

- The work of an existing water neutrality project was highlighted and the lessons learned from this project were potentially interesting and relevant. However, this was currently being undertaken at a local level and relied on Ofwat funding to offer incentives to participants to save water. As such, how these initiatives could be funded would be a key consideration if this was something the Panel workstream wanted to take forward. Creating a market for water credits was suggested as one potential path and government funding for other environmental initiatives (e.g. grants to improve home insulation) were also noted.

- Identifying opportunities to move to alternative supplies or partial alternative supplies such as rainwater harvesting, or grey water recycling would be important avenues for enhancing water efficiency. Identifying and implementing these opportunities for enhanced water efficiency would require collaboration between wholesalers, retailers and customers.

- Considering how granular consumption data is transferred from wholesalers to retailers and customers would be an important part of facilitating water efficiency.

- As the economy grows, the volume of water represented by the DEFRA nine per cent non-household reduction target would grow and consequently water companies will need to find ways to save more than they might currently anticipate.

- Appendix B of the Economic insights report, which looks at international examples of how NHH water efficiency is driven, was recommended as a point of reference for the Panel water efficiency workstream.

- The work being undertaken by CCW to encourage the creation of an Accelerated Reduction in Demand (ARID) hub that would act as the catalyst to improve consumer messaging and incentives to reduce demand for water was noted.

9. Industry Progress

- JC outlined recent and upcoming events in the water industry that have the potential to influence water efficiency and drive collaboration between retailers and wholesalers.

- For retailers, recent changes to the Retail Exit Code (“REC”) including the increase to the price cap as well as a modest water efficiency allowance per Supply Point Identifier may see some change in approach. Coming changes to the Market Performance Framework may also see further incentives for water efficiency.

- For wholesalers, the common performance commitments set out in the final PR24 methodology, DEFRA’s nine per cent reduction target and the need to collaborate to deliver this as well as the penalties and bonus payments that would be set as part of the Outcome Delivery Incentives all have the potential to significantly impact the approach to water efficiency.

- Smart metering and the availability of granular consumption data would be key to understanding and delivering water effificency and it would be important to monitor plans for smart meter roll outs as part of wholesalers final Water Resource Management Plans (in line with the options recommended by the Interim National Metering Strategy).

10. Workshop 3: Identifying enablers/barriers to water efficiency

- PS opened the discussions in Workshop 3 (the potential enablers and current barriers to delivering water efficiency).

Summary of Trading Party discussions:

- Appropriate water efficiency incentives for retailers and, as or more importantly, customers would have a big impact. The role that DEFRA could play in providing support for water efficiency at a policy level and the impact that this could have was emphasised.

- More wide scale roll outs of enhanced meter technology that enables the provision of granular consumption data would be key to facilitating water efficiency, although it would also be important to find a way to share that data efficiently and in as open a manner as possible. It was observed that the more data retailers have, the more they can inform customers and informed customers make good decisions. A coordinated single message to the market on how this should be delivered was seen as being something that could have a big impact.

- More could be done at a national level to raise awareness amongst businesses and trade groups of the nine per cent reduction target and to encourage participants on the non-household water market to seek solutions. A national water efficiency communications strategy that all market participants could get behind would be very useful in this regard.

- The Market Improvement Fund or the Ofwat Innovation Fund could look to prioritise funding for water efficiency initiatives.

- Fear of engaging openly with retailers on water efficiency being seen as a breach of competition law stymies open communication and dialogue between wholesalers and retailers and means that messaging on water efficiency opportunities is not always reaching customers.

- The barriers that had been identified by research undertaken by the Major Energy Users Council were that:

    - low price/little end customer pressure indicated that this was seen as a low priority;
    - time spent on fixing basics (bills etc) detracts attention from water efficiency;
    - there are existing shortcomings in meter data;
    - there are few incentives to act in this area (although this appears to have been partly addressed by PR24 plans and the DEFRA nine per cent reduction target); and

- non-household market pricing structures are overly complex.

- It was noted that it can be challenging for retailers to identify who at the customer end (e.g. office leaseholder, building owner or facilities management service provider) has the ability to make decisions on taking up water efficiency programmes. Additionally, competition for customer resources between energy efficiency and water effificency programmes was seen as a barrier to uptake of water efficiency initiatives.

11. Next Steps and close

- PT thanked all participants for their engagement and input, noting the energy and enthusiasm for the subject that had been shown, as well as the MOSL support team for their work in setting the session up.

- The feedback from the discussion was noted, including the need to develop a common approach to measurement of water efficiency and that there needs to be a step change in approach with enhanced customer incentives and that improvements in water efficiency will require a collaborative approach between wholesalers and retailers. It was also noted that there was a lot of good work currently being undertaken and that it would be important for the Panel to ensure that it considers how best it can act to drive the market forward on water efficiency in a way that doesn’t duplicate or undermine existing work. In particular, any report commissioned by the Panel would need to clearly differentiate itself from the multitude of reports on water efficiency that have been produced to date and establish how it would add real value. Raising awareness of the importance of water efficiency among policymakers to try and bring it to the same level as the carbon debate was one potential area where the Panel could have a positive impact.

- PT outlined that the next steps for the Panel's water efficiency workstream would be to continue to work with the RWG Water Efficiency Subgroup and support their work as well as looking to commission a report on how other geographies and industries are addressing resource efficiency challenges. It was anticipated that work on this report would commence later in the summer and that it would be published towards the end of the calendar year.

- PT outlined the next steps in the Panel's engagement with the market which included a trading party and stakeholder survey which would be issued in June, the publication of the Panel's first annual report and its annual Open Forum which would both come in September.

- Trading Parties were reminded that the Panel would welcome any further thoughts or comments that they may have and would like to share outside of this session via Panel.secretariat@mosl.co.uk.

Appendix – List of Attendees

Please see below the full attendees' list. Please note that this list excludes Panel members, as they have been listed under section 1 "Panel Members in Attendance".

- Aaron Burton, DEFRA
- Adrian Smith, MOSL
- Alex Cowie, MOSL
- Andy Pymer, Wessex Water
- Barry Millar, Waterscan
- David Hinton, South East Water
- Fallon Wilkinson, Water Plus
- Gareth Barker, Affinity Water
- Iain McGuffog, Bristol Water
- Jude Burditt, Severn Trent
- Karma Loveday, The Water Report
- Kimberley Turnbull, Southern Water
- Liz D'Arcy, MOSL
- Lyvia Nabarro, MOSL
- Mark Hanlon, ConservAqua
- Mark Wilkinson, Northumbrian Water
- Markus Lloyd, MOSL
- Martin Hall, MOSL
- Matthew Coggins, Water2Business
- Matthew Rix, Yorkshire Water
- Mike Gauterin, United Utilities
- Mike O'Connor, Independent Code Change Comitee Member
- Nathan Richardson, Waterwise
- Neil Pendle, Waterscan
- Oli Shelley, Wave
- Pete Holland, Anglian Water
- Phillip Mills, UK Water Retailer Council
- Richard Channell, Thames Water
- Richard Lavery, Scottish Water
- Rosalind Carey, Business Stream
- Rupert Redesdale, The Water Retail Company
- Samuel Larsen, Water UK

To promote, challenge and lead the operation and evolution of the market for the benefit of business water customers

- Shaun Jones, Albion Water
- Sian Robinson, Dwr Cymru
- Stuart Boyle, MOSL
- Tony McHardy, Water Plus