

**Waterwise Conference – Keble College, Oxford**  
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Last night at dinner someone said to me who are all the organisations here, what is Water UK, and why haven't you all got it all sorted yet? A good, challenging question. Well I've got a few answers. Water UK brings together all the water operations in England Wales Scotland and Northern Ireland. We are doing a lot. In fact the last few years have seen a transformation in demand management policy.

Everyone connected with water services – the companies, regulators, consumer and environment interest groups, government and non-government bodies – has grasped that we can no longer take for granted a divine right to a comfortable balance between supply and demand.

What's more the public, water customers and users, are also getting the message. Whether it's gardeners taking a fresh interest in drought resistant plants or major industries such as food with its Food Industry Sustainability Strategy.

I want to talk about how this positive development has come about. About the part the industry is playing. About the role of regulators and regulation. And about the continuing challenges as we were discussing at dinner last night – impatiently!

Then I shall close by repeating something I know you have heard before but can never be said too many times. In the end, avoiding waste – of water or anything else – is a society thing. Companies can supply; regulators can tell them how; NGOs can organise campaigns; governments can set policy. But unless there's a collaborative effort to explain why it matters, then it's very unlikely to succeed.

So it's fine for regulators (specially economic ones) to start to take water saving seriously and setting targets for companies. And fine for the Environment Agency to step up requirements and call for companies to be given a Water Efficiency Commitment. But we do need to remember that targets can have perverse consequences. For one thing they can persuade everyone else that if the targets are met nothing further is necessary.

And, excuse me, but there already is a Water Efficiency Commitment. The industry is committed to promoting water efficiency. The companies through Water UK set up Waterwise after all – need I say more! And they are still providing some of its funding.

Over recent years the companies have been rolling out trials for large scale water efficiency. Helping customers save water by refitting their homes with efficient devices. Subsidising water saving equipment and offering audits. And at the same time they've been investing strongly in water efficiency education in schools and countless local groups and societies.

### **The companies**

Let's look at the detail of this for a moment.

The industry's research arm, UKWIR, has built up a big database of large scale water efficiency projects. In parallel, Waterwise itself has analysed many of these and presented them in its evidence base. Each of these initiatives has been supported by the companies and nearly every company has put forward projects.

The industry's work in this area also covers a wide range of sectors. Let me give you a flavour of this by looking at examples in education, housing, businesses and households.

All companies are linking up with schools in a huge variety of imaginative schemes. Some, including Thames, Severn Trent and Welsh Water are also working directly with school managers to help them manage demand and reduce the water wasted in school buildings. These projects are then linked back into curriculum work with the children.

Companies are also beginning to work more closely with social housing providers. Sutton and East Surrey and Wessex have begun retrofit projects. Portsmouth and South West Water and others are looking to undertake similar projects.

Water companies are also working with businesses to help them reduce their consumption. This ranges from just providing information, to site visits and audits, and active partnerships with companies where the business objective is lower consumption.

The companies are also looking at financial innovation in their dealings with business. For example, they are offering grants for water efficient kit which can be reflected in the tariff until the capital is repaid. We shouldn't underestimate how different (or even counter-intuitive) it is for an industry to help its customers reduce their consumption. But the water industry has been doing it without any government funding or specific regulatory requirement.

All water companies are communicating water efficient messages to their customers. There are many easy water-saving tips that consumers can use in their homes and these add up to make a real difference in the long-term.

Many companies are also supporting Waterwise and the Energy Saving Trust in promoting a large-scale national water efficiency campaign. The idea is to ask consumers to pledge to take a shorter shower in return for one of many free gifts. This is collaboration in practice, because the campaign is based on research carried out last year by Waterwise into how people use the shower.

I think several of the things I've said show that water efficiency is challenging for water companies. It requires a shift in how they think and how they operate.

Water companies aren't used to dealing with distributed assets, in other words situations in which they have no control over how appliances and kit will be used. They aren't set up to visit customers' properties, but have to be concerned about the potential liabilities. They are also affected by great uncertainties about how to measure costs and benefits which makes budgeting for water efficiency a hazardous business. This means, for example, that retrofit projects are hard to promote within companies and in my view makes it even more impressive that companies are proposing any projects at all. (It also underlines the need for these projects to get a positive hearing in the price review process.)

So, I'll now move on to the role of the regulators.

### **The regulators**

The first question here is: can regulation promote demand management and water efficiency? I know this sounds very basic or even simplistic. But given that we know how difficult it is, we can't take anything for granted – we need to look closely at whether the regulatory regime provides incentives or disincentives.

The water sector is one where long-term investment and maintenance of that investment is essential. For us, short-term is five years – and our idea of longer term is centuries. I would suggest that rather than another set of targets we need a better regulatory structure that will move on the basic economics of service delivery.

Let's be frank about this. The companies need to be rewarded for delivering the Government's water efficiency agenda. Carrots work better than sticks if we are interested in developing sustainable solutions.

In all parts of the UK (and regardless of ownership) our water companies are like companies in every sector – they have to pay attention to economics and be able to demonstrate value for money. This is why so many are contributing to the Waterwise evidence base – they need to assure themselves that investment in water efficiency really does deliver water at a price the customer and the investor (be it a private investor or the government) will judge is good value.

Unfortunately, the current regulatory regime doesn't always make this easy.

Last year, Ofwat produced a revenue correction mechanism which protects companies from loss of revenue linked with promoting water efficiency. This was a useful step forward – but they could go further. Where for example is the Ofwat-equivalent of Ofgem's demonstration fund which allows companies to test approaches that may look uneconomic on paper.

Also there are still problems around the regulatory treatment of capex and opex. Companies are incentivised to undertake capital schemes and penalised for ongoing opex schemes. This is frankly daft, and a serious disincentive to the creation of those green jobs Jacob (*Waterwise Director*) mentioned earlier.

I'm afraid we just have to accept that innovation can be problematic for everyone.

There's a similarity here with the recent history of catchment management schemes for improving water in the environment. We're now seeing the industry coming forward with catchment projects, but this is happening in spite of the regulatory regime, not because of it. A few companies took a risk with a new idea and this encouraged others including regulators to see the value. But it will take some time for the memory to dim of how catchment approaches were treated by all regulators when companies first tried to pioneer them.

There's still a danger even now that proposing demand-side measures need the same degree of bravery from companies.

Let's spell out the challenges and look at how they can be tackled and the steps water companies have taken.

## **The Challenges**

First, there's a shortage of examples of large-scale water efficiency projects actually happening. I'm pleased to say that the whole industry is now involved in solving this one. Every company is involved in trials that will provide information on costs, benefits, uptakes and water savings.

Second, there's a gap in our knowledge of how water efficiency works. There's very little robust data that for example separates the effects of different activities. This is being tackled by UKWIR and the Waterwise evidence base I mentioned a moment ago, which are collating and analysing data from the large trials to make sure we get the best value from them.

A third challenge is the high cost of water efficient equipment. Again there is progress but some way to go. Prices are falling and manufacturers and retailers are increasing their ranges and production levels. But I think we all know that there's still a need to promote the benefits and availability if we're serious about increasing distribution and bringing down prices further.

This needs more action on labelling, fiscal incentives and legislative guidance. The companies are involved through Water UK and Waterwise in making the case for these developments but obviously many of the decisions have to be made by others in government and the supply chain.

My fourth challenge is the need for consistent and uniform advice to consumers. And this can only come with a wider agreed framework for promoting water efficiency. I think I can claim that the industry has been as active and successful as anyone else here. We set up Waterwise in the first place as an independent NGO and we're looking at how we can help it to continue beyond its formal funding period of five years.

My final challenge is the need for active partnerships to increase the uptake of water efficiency schemes. The companies are taking action here and trying to create links with a range of groups including social housing providers, local authorities, retailers, energy companies and others. The aim is to share cost and increase the uptake of retrofit, but it's not easy and any offers of help would be gratefully received!

Partnership is one of our most important priorities at Water UK and in closing my remarks this morning I want to focus on it directly.

### **The partnerships**

As I mentioned at the beginning, none of this good work by the industry or anyone else will really achieve what's needed without a collaborative effort. To show you what I mean, let's look at this essential partnership approach in the light of what happened, and what might have happened, to various water efficiency activities involving water companies.

Look first at the famous (or infamous) water efficiency targets set by Ofwat. Of course we accept that it's the regulator's job to regulate, and regulation is inconceivable without targets in many situations. In some situations (like leakage for instance) they even work!

But let's face it; there are real doubts about targets for companies being the best way to deliver water efficiency. We think it's crystal clear that it's partnerships you need if you're serious about changing public attitudes and actions in this kind of thing. There's a limit to what company regulation can achieve. But regulation on a broader basis could contribute by underlining this truth about collaboration.

We definitely need to deliver on the regulation we currently have and don't use. Where is the guidance from the 2003 Water Act for public bodies to promote water conservation? I don't know.

Why is Government procurement not buying water efficient kit? I don't know. Why is the public still being charged VAT when they buy water efficient products? Why are water companies still penalised for operating expenditure on water efficiency programmes? Where is the Government guidance for water efficiency in existing buildings?

Water UK was an active member of the Government's Water Saving Group. The Group delivered a lot of positive changes. But I'm sorry to say that there's a feeling now that the collective spirit it created has gone and been replaced by the old attitude that says "Leave it to the water companies".

Well, I don't want to labour the point, but it just won't work. I think I've demonstrated that the industry is doing and will do whatever it can. But greater water efficiency on a scale that will make a difference can only be achieved by working together.

So I'm delighted that today's attendance shows just how far the interest in water efficiency has stretched. Many of the organisations that could work more closely with water companies are represented and I'm sure we can together take some steps towards new partnerships at this conference. We really need that. Overall the prospects for progress are good but, as I've shown, there's a long way to go and so much more we could do.

We hope that the Government's Cave and Walker reviews will propose different approaches to regulation to help water companies adapt to the new challenges they are facing – I mean affordability, climate change, and more pressure on the environment.

Ultimately this is the bigger picture that makes it a matter of urgency for the whole community to become more water wise. Because there is no doubt at all that greater water efficiency can help water companies and society to face these challenges with a greater prospect of success. So let's meet the challenge of that dinner guest talking to me yesterday evening and forge the additional partnerships that we need for delivering that success.