

August 2016

Trust in water

# Variations to Appointments Notice to consult on a Proposal

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**Proposal by the Water Services Regulation Authority (Ofwat) to grant a new appointment to Icosa Water as a water and sewerage company and vary the appointment of Anglian Water as the water and sewerage company.**

Water Industry Act 1991 Section 8(3)

This notice is a consultation on this proposal. The consultation period will last for 28 days from the date of publication of this notice. Having considered any representations submitted during the consultation period in response to the consultation, Ofwat will decide whether or not to grant a new appointment to Icosa Water as a water and sewerage company and make the consequential variation to the appointment of Anglian Water as a water and sewerage company.

## **The Site**

Icosa Water Limited (Icosa Water) has applied to be the water and sewerage company to 172 existing household customers and 7 existing non-household customers that are currently served by a private supplier at a site called West Raynham (the Site).

The Site sits within the water and sewerage services supply area of Anglian Water. Icosa Water will supply the Site with water using a bulk supply from Anglian Water. Icosa Water will provide sewerage services to the Site itself. Icosa Water proposes to use and maintain existing sewerage infrastructure and to install a new connection between the Site and Anglian Water's water supply network in order to receive a bulk supply from Anglian Water to serve the site.

## **The applicant**

Icosa Water has not previously operated as a water or sewerage company. It is a registered company in England.

## **The proposal**

Ofwat proposes to:

- (i) Grant a new appointment to Icosa Water as a water and sewerage company; and
- (ii) vary the appointment of Anglian Water as a water and sewerage company by excluding the Site from its water and sewerage supply areas.

By means of the above, Icosa Water will become the water and sewerage services supplier for the Site.

## **The application**

Icosa Water has applied to be the water and sewerage company for the Site under the unserved criterion, set out in section 7(4)(b) Water Industry Act 1991 (WIA91).

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## Unserved status of the Site

To qualify under the unserved criterion, an applicant must show that at the time the appointment is made, none of the premises in the proposed area of appointment is served by the existing appointee. The Site is currently served by a private supplier and Icosa Water has provided us with confirmation from the owner of the site that it is not currently being served by Anglian Water. Additionally, Anglian Water have confirmed to us that they believe they are not currently serving the Site. Having reviewed the facts, our current view is that the Site is unserved. This is consistent with our policy and process statements on new appointments and variations, published in January 2014.

## Protecting customers

Ofwat acts to protect consumers, especially those who are unable to choose their supplier. In assessing applications to supply new development sites, Ofwat acts on behalf of both existing customers as well as potential new end-customers who are not yet on site, to protect their interests. The fact that future customers on a site have not directly chosen their supplier is not a position unique to new appointments – very few customers in England and Wales are able to choose their supplier<sup>1</sup>.

Recognising this, our assessment of an applicant's proposals includes analysis of its plans to ensure customers will be at least no worse off in terms of their annual bills and levels of service than if they had been supplied by the existing appointee in whose geographical area the Site sits. We will continue to protect customers on the Site by regulating the new appointee's prices and service levels.

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<sup>1</sup> At the moment, under one aspect of the current framework for new appointments and variations to which this consultation relates, non-household customers whose premises are, or are likely to be, supplied with at least 50 MI of water where the area of the relevant appointed company is not wholly or mainly in Wales (and at least 250 MI where the relevant area is wholly or mainly in Wales) can effectively switch suppliers of water and/or sewerage. In addition, under the current version of the separate framework for Water Supply Licensing (WSL), non-household customers can effectively choose their supplier of water (but not sewerage) where the total quantity of water estimated to be supplied to the relevant premises is at least 5MI per year where the premises are supplied with water using the supply system of an existing water company whose area is wholly or mainly in England (and at least 50MI where the relevant area is wholly or mainly in Wales). The WSL framework will be replaced by a new Water Supply and Sewerage Licence (WSSL) framework in April 2017. In simple terms, , under the WSSL framework, in England the 5MI threshold will no longer apply and so in practice any non-household customer will be able to choose their supplier for water and/or sewerage services. The position will be different in Wales.

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## **Price**

Icosa Water proposes to charge customers at the Site based on Anglian Water's charges scheme for both water and sewerage services, but Icosa Water will offer an initial £5 discount on the sewerage charges for each customer.

## **Levels of service**

Every appointee is required under conditions G, H and I of its conditions of appointment to publish Codes of Practice on debt and leakage and a Customer Code for its household customers which has been approved by Ofwat. We have assessed Icosa Water's proposed Codes of Practice and Customer Code, and our current view is that these are of an appropriate standard for Ofwat to approve them. Our current view is that, assuming we approved these Codes of Practice and the Customer Code, customers on the Site would be no worse off in relation to the points covered by the above Codes of Practice and the Customer Code than they would be if Anglian Water were ever to be the customers' water and sewerage supplier.

## **Site owner choice**

We note that the Site owner has said that it wants Icosa Water to be the water and sewerage company for the Site.

## **Environment Agency and Drinking Water Inspectorate**

We take the views of these organisations into account before progressing to formal consultation on an application for a new appointment (a consequential changes to the geographical area of an existing company's appointment). Both Environment Agency and Drinking Water Inspectorate informed us that they are content for us to consult on this application<sup>2</sup>.

## **Anglian Water's existing customers**

In considering whether customers will be no worse off, we also considered the potential effects of this proposed appointment (and consequential variation of

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<sup>2</sup> The Environment Agency and the Drinking Water Inspectorate will also be formally consulted on the proposals, as they are on the list of organisations which must be formally consulted as set out in section 8(4)(b) of WIA91.

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Anglian Water's geographical area) on the prices that Anglian Water's existing customer base may face.

The calculation necessarily depends on a range of assumptions, and there are clearly difficulties involved in quantifying the effect. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way.

Broadly, we have assessed the potential magnitude of this impact by comparing how much Anglian Water might have expected to receive in revenue from serving the Site directly, were they to serve the site, with the revenues they might expect from serving the Site indirectly via a bulk supply agreement with Icosa Water. The lower bound of the range takes into account the benefit to Anglian Water as a result of Icosa Water serving the Site, by estimating the costs that Anglian Water would be likely to avoid, such as retail costs and capital and operating costs associated with the local network used to serve the Site. The upper bound of the range does not take these avoided costs into account. We look at these differences in revenue and costs over a hundred year timeframe to reflect the long life of the assets that will be used to supply customers at the Site.

In this case, we have calculated that if we grant the Site to Icosa Water, there may be a potential impact on the bills of Anglian Water's existing customers of -£0.01 to £0.01.

We are comfortable that these ranges account for the uncertainty in the costs that may be avoided by Anglian Water.

Further, this impact does not take into account the potential spill-over benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win sites. We set out the wider benefits we believe stem from the new appointments and variations regime below.

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## **Ability to finance and properly carry out its functions**

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed water and/or sewerage company.

We have considered the revenues and costs of the entire Site relating to water and sewerage services should the relevant appointment and variation be granted. Unlike many applications for new appointments and variations, the Site consists of existing water and sewerage customers that Icosa Water will be able to serve as soon as they are granted a licence to serve the Site. Additionally, the majority of the revenue predicted from the customers served at the Site are household customers that have relatively stable levels of consumption. As a result, there is little risk that Icosa Water will receive significantly less income than expected.

On this basis, our current view is that the risk of this Site not being financially viable is small and as a result we are currently satisfied that Icosa Water would be able to finance its functions if the new appointment is granted.

## **Conclusion and next steps**

In assessing Icosa Water's application for the proposed new appointment and variation, we have considered the general benefits of new appointments. Our current view is that our two key policy principles would be met in this case, as customers would be no worse off, and Icosa Water would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed new appointment and consequential variation on the existing customers of Anglian Water.

We are currently minded to grant the proposed new appointment and variation under the unserved criterion. We are consulting on our proposal to do so.

## **Where to send submissions**

Any representations about, including objections to, this proposal should be sent in writing to:

Jonathan Eddleston, Senior Case Officer, Markets and Economics Division, Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA so as to be received no later than 16 September 2016.

Submissions can also be emailed to: [jonathan.eddleston@ofwat.gsi.gov.uk](mailto:jonathan.eddleston@ofwat.gsi.gov.uk)

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