

About this document

Ofwat proposes granting a new appointment to Icosa Water Services as a water and sewerage company and terminating the appointment of Icosa Water as a water and sewerage company.

This notice is a consultation on this proposal. The consultation is carried out under section 8(3) of the Water Industry Act 1991 and the consultation 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 Services as a water and sewerage company and to terminate the appointment of Icosa Water as a water and sewerage company.

The Site

Icosa Water Services Limited ("**Icosa Water Services**") 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 Icosa Water Limited ("**Icosa Water**"). Icosa Water was granted an appointment to become the water and sewerage provider for the Site on 21 October 2016. Subsequently, Icosa Water created a subsidiary company, Icosa Water Services, and applied to Ofwat to transfer its appointment to serve the Site to this subsidiary company. It has applied to transfer the appointment by consent and its application in almost all respects mirrors the previously application made by Icosa Water.

Icosa Water Services will supply the Site with water using a bulk supply from Anglian Water Services Limited ("**Anglian Water**"). It will install a new connection between the Site and Anglian Water's water supply network in order to receive this bulk supply. Icosa Water Services will provide sewerage services to the Site itself by using and maintaining existing sewerage infrastructure. This is the same as the current approach by Icosa Water.

The applicant

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

The proposal

Ofwat proposes to:

- grant a new appointment to Icosa Water Services as a water and sewerage company; and
- terminate the appointment of Icosa Water as a water and sewerage company.

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

Our approach to the assessment of this application

The new appointment and variation mechanism, set out in primary legislation¹, provides an opportunity for entry and expansion into the water and sewerage sectors by allowing one company to replace the existing appointee as the provider of water and / or sewerage services for a specific area. This mechanism can be used by new companies to enter the market and by existing appointees to expand their businesses.

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our statutory duty to protect consumers, wherever appropriate by promoting effective competition. In particular, in relation to unserved sites, we consider that we must ensure that the future customers on a site – who do not have a choice of supplier – are adequately protected. When assessing applications for new appointments and variations, the two key policy principles we apply are that:

- customers, or future customers, should be no worse off than if the site had been supplied by the existing appointee; and
- Ofwat must be satisfied that an applicant will be able to finance the proper carrying out of its functions as a water and/or sewerage company.

We clarified these two policy principles in February 2011 when we published our 'New appointments and variations – a statement on our [policy](#) and [process](#) for new appointments and variations'. In November 2012, we published '[Statement on our](#)

¹ The legal framework for new appointments is set out in the Water Industry Act 1991 (WIA). Section 7 of the WIA sets out the criteria by which an appointment or variation may be made. Section 8 sets out the procedure for making that appointment or variation.

[approach for assessing financial viability of applications for new appointments and variations](#)'. This states that we will adopt a company-based assessment of financial viability, rather than a detailed site-based assessment, where it is appropriate to do so.

When we assess whether customers will be no worse off as a result of the appointment, we not only consider the customers on the site but also the generality of customers. These include not only the customers of the existing provider but also customers more generally across England and Wales, who in our view benefit from the effective operation of the new appointment and variation mechanism.

If Ofwat grants this new appointment, the appointment will be granted subject to the normal conditions of appointment that apply to all new appointees. For most new appointees, there is an appointment condition that their charges may not exceed the charges of the previous incumbent. In this case, the proposed condition will provide that the charges of Icosa Water Services may not exceed the relevant charge of Anglian Water (rather than Icosa Water, which will no longer be a water and sewerage company).

The application

Icosa Water Services has applied to be the water and sewerage company for the Site under the consent criterion, set out in section 7(4)(a) Water Industry Act 1991 (“WIA”).

Consented status of the site

Consent: To qualify under the consent criterion, an applicant must provide a letter of consent from the existing appointee consenting to the application and consenting to the variation of its area of appointment corresponding to the applicant’s application.

We have received letters from Icosa Water confirming that it consents to Icosa Water Services becoming the appointee for the Site and confirming that it consents to the termination of its appointment.

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 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 and

variations – very few customers in England and Wales are able to choose their supplier².

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 relevant site sits. We will continue to protect customers on a site by regulating the new appointee's prices and service levels.

Price

Icosa Water Services proposes to charge customers at the Site based on Anglian Water's charges scheme for both water and sewerage services, but Icosa Water Services will offer an initial £5 discount on the sewerage charges for each customer. Icosa Water Services intends to maintain this discount until a point where it is no longer able to maintain its profit margin with the discount in place. This is the same as Icosa Water's current prices.

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. These Codes must comply with principles issued by Ofwat. We have assessed Icosa Water Service's proposed Codes of Practice and Customer Code, and our view is that these are of an appropriate standard. These Codes are identical to the Icosa Water Codes and we previously assessed Icosa Water's Codes against the service levels provided by Anglian Water. As a result, our view is that customers on the Site would be no worse off in relation to the service received under Icosa Water Services' Codes of Practice and Customer Code than they would be if Icosa Water or Anglian Water were to be the customers' water and sewerage supplier.

Site owner choice

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

² The majority of business, charity and public sector customers ("Business Customers") where the area of the relevant appointed company is not wholly or mainly in Wales (and whose premises are, or are likely to be, supplied with at least 50 MI where the relevant area is wholly or mainly in Wales) can effectively switch suppliers of water and/or sewerage from 1 April 2017.

Environment Agency (EA) and Drinking Water Inspectorate (DWI)

We take the views of these organisations into account before progressing to formal consultation on an application for a new appointment. Both the EA and DWI informed us that they are content for us to consult on this application³.

Incumbent's existing customers

In considering whether customers will be no worse off, we also considered the potential effects of this new appointment on the prices that the incumbent's existing customer base may face.

In this case, as Icosa Water has no other customers, there will be no impact.

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 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 Services will be able to serve as soon as they are granted a licence to serve the Site. Additionally, the majority of the customers on the Site are household customers who have relatively stable levels of consumption. As a result, there is little risk that Icosa Water Services 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 Services would be able to finance its functions if the new appointment is granted.

Conclusion and next steps

In assessing Icosa Water Service's application, we have considered the general benefits of new appointments. Our view is that our two key policy principles would be

³ 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 WIA.

met in this case, as customers are likely to be no worse off, and Icosa Water Services is likely to be able to finance, and carry out, its functions.

We are currently minded to grant the new appointment under the consent criterion. We are consulting on our proposal to do so.

Where to send submissions

Any person who wishes to make representations or objections with respect to the application should do so in writing (which includes by email) to Ofwat at Centre City Tower, 7 Hill Street, Birmingham, B5 4UA or by email at casemanagementoffice@ofwat.gsi.gov.uk.

Representations must be received by Ofwat no later than 17.00 hours on 27 March 2017. Further information about how to make representations or objections, including information on the treatment of confidential information, can be obtained from Ofwat at the above address or at <http://www.ofwat.gov.uk/foi/>

Site maps

