

October 2021

Variation of Icosa Water Services Limited's appointment to include Cardington Hangars, Cardington

About this document

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On 18 August 2021, Ofwat began a [consultation on a proposal](#) to vary Icosa Water Services Limited's ("**Icosa Water**") appointment to become the water and sewerage services provider for a development in Anglian Water Services Limited's ("**Anglian Water**") water supply area and sewerage services area called Cardington Hangars in Cardington, Bedford ("**the Site**").

The consultation ended on 16 September 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 5 October 2021, we granted Icosa Water a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

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1. Introduction

The new appointment and variation mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of water and sewerage services for a specific area. This mechanism can be used by new companies to enter the market and by existing companies to expand into areas where they are not the appointed company. In this case, Icosa Water applied to replace Anglian Water to become the appointed water and sewerage company for the Site.

A company may apply for a new appointment (or a variation of its existing appointment to serve an additional site) if any of the following three criteria are met:

- None of the premises in the proposed area of appointment is served by the existing appointed company at the time the appointment is made (the “**unserved criterion**”);
- Each premises is likely to be supplied with at least 50 mega litres per year (in England) or at least 250 mega litres per year (in Wales) and the customer in relation to each premises consents (“**the large user criterion**”);
- The existing water and sewerage supplier in the area consents to the appointment (“**the consent criterion**”).

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our duty to protect consumers, wherever appropriate by promoting effective competition. In particular, in relation to unserved sites, we seek to ensure that the future customers on the 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:

1. Customers, or future customers, should be no worse off than if they had been supplied by the existing appointee; and
2. We 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.

Entry and expansion (and even the threat of such by potential competitors) can lead to benefits for different customers (such as household and business customers and developers of new housing sites). Benefits can include price discounts, better services, environmental improvements and innovation in the way services are delivered.

Benefits can also accrue to customers who remain with the existing appointee, because when the existing appointee faces a challenge to its business, that challenge can act as a spur for it to improve its services. We believe the wider benefits of competition through the

new appointments and variations mechanism can offset any potential disbenefits for existing customers that might arise. We consider these potential disbenefits in more detail below.

2. The application

Icosa Water applied to be the water and sewerage services appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Icosa Water will serve the Site by way of bulk supply and discharge agreements with Anglian Water.

2.1 Unserved status of the site

To qualify under the unserved criterion, an applicant must show that at the time the appointment or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

Anglian Water has provided a letter, dated 25 February 2021, confirming that, in its view, the Site is unserved.

The Site is a portion of a former airfield, and save for a tarmacked airstrip, is a greenfield site, with no other existing infrastructure. While there are small buildings to the centre of the Site, Anglian Water's maps do not show any existing connections to these.

Given the information provided by the applicant and Anglian Water, we are satisfied that the Site may be considered unserved.

2.2 Financial viability of the proposal

We will only make an appointment or variation if we are satisfied that the proposal poses a low risk of being financially non-viable. We assess the risk of financial viability on a site-by-site basis and also consider the financial position of the company as a whole.

Based on the information available to us, we concluded the Site demonstrates sufficient financial viability, and Icosa Water has satisfied us that it can finance its functions and that it is able to properly carry them out.

2.3 Assessment of ‘no worse off’

Customers on the Site will be no worse off being served by Icosa Water than by Anglian Water because Icosa Water proposed to match its charges to those of Anglian Water.

With regard to service levels, we have reviewed Icosa Water's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance

commitments of Anglian Water. Based on this review, we are satisfied that customers will be offered an appropriate level of service by Icosa Water and that overall customers will be 'no worse off' being served by Icosa Water instead of by Anglian Water.

2.4 Effect of variation on Anglian Water's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the price 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 on customers of Anglian Water. 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 it to serve the Site, with the revenues it might expect from the proposed arrangement with Icosa Water.

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

This impact does not take into account the potential spillover benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win new sites.

2.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Bellway Homes Limited, said that it wanted Icosa Water to be the water and sewerage company for the Site.

3. Responses received to the consultation

We received three responses to our consultation: from the Consumer Council for Water ("**CCW**"), the Environment Agency and the Drinking Water Inspectorate ("**DWI**"). We considered these responses before making the decision to vary Icosa Water's appointment. The points raised in the responses are set out below.

DWI had no comments to make regarding this consultation and did not have any objections. Details of CCW and the Environment Agency's responses are set out below.

3.1 CCW

In its consultation response CCW stated that in general it expects new appointees to provide customers with prices, levels of service and service guarantees that match, or ideally better, those of the incumbent company.

CCW noted its disappointment that there will be no direct financial benefit to customers on the Site from having Icosa Water as their provider of water and sewerage services given it plans to match the charges of Anglian Water. However, it noted that Icosa Water generally matches or exceeds Anglian Water's service standards. For this reason, CCW supports the application. For example, Icosa Water will offer great compensation than Anglian Water in many instances of service failure, for example failing to respond to written complaints within 10 working days.

However, CCW noted that Icosa Water will not be able to offer its financially vulnerable customers a social tariff in the way that Anglian Water can, although it will offer the standard WaterSure tariff for qualifying customers who find themselves in financial difficulty. CCW stated that, given its relatively small size and customer base, it may be appropriate for Icosa Water to tailor some of the services that it provides. Until it can provide a formal social tariff, however, it would expect Icosa Water to offer appropriate flexible support to any individual in financial difficulty who would otherwise benefit from a social tariff. This should not be at the expense of its other customers. CCW would expect Icosa Water to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW noted our conclusion that Anglian Water's existing customers would see a small increase in their bills as a result of the variation. CCW recognised this increase is minimal, but questioned whether there will be any significant benefits arising from this arrangement for Anglian Water's customers. CCW questions the value of the NAV regime if it cannot deliver benefits for all customers.

CCW notes Ofwat's overall assessment is that customers will be no worse off in terms of the levels of service they receive if served by Icosa Water rather than Anglian Water, and it agrees with this assessment.

Our response

One of our key policies with considering NAV applications is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

3.2 Environment Agency

The Environment Agency's consultation response confirmed it had no objections to the variation but noted that there is currently insufficient permitted capacity to accommodate the Site at Anglian Water's wastewater treatment works. It recommended that Icosa Water consult with Anglian Water to ensure it is aware of the planned development and can put in place any necessary upgrades or improvements in order to serve the Site within the timescales the Site is due to be built out. The Environment Agency noted that this may require Anglian Water to apply for a revised discharge permit for its treatment works.

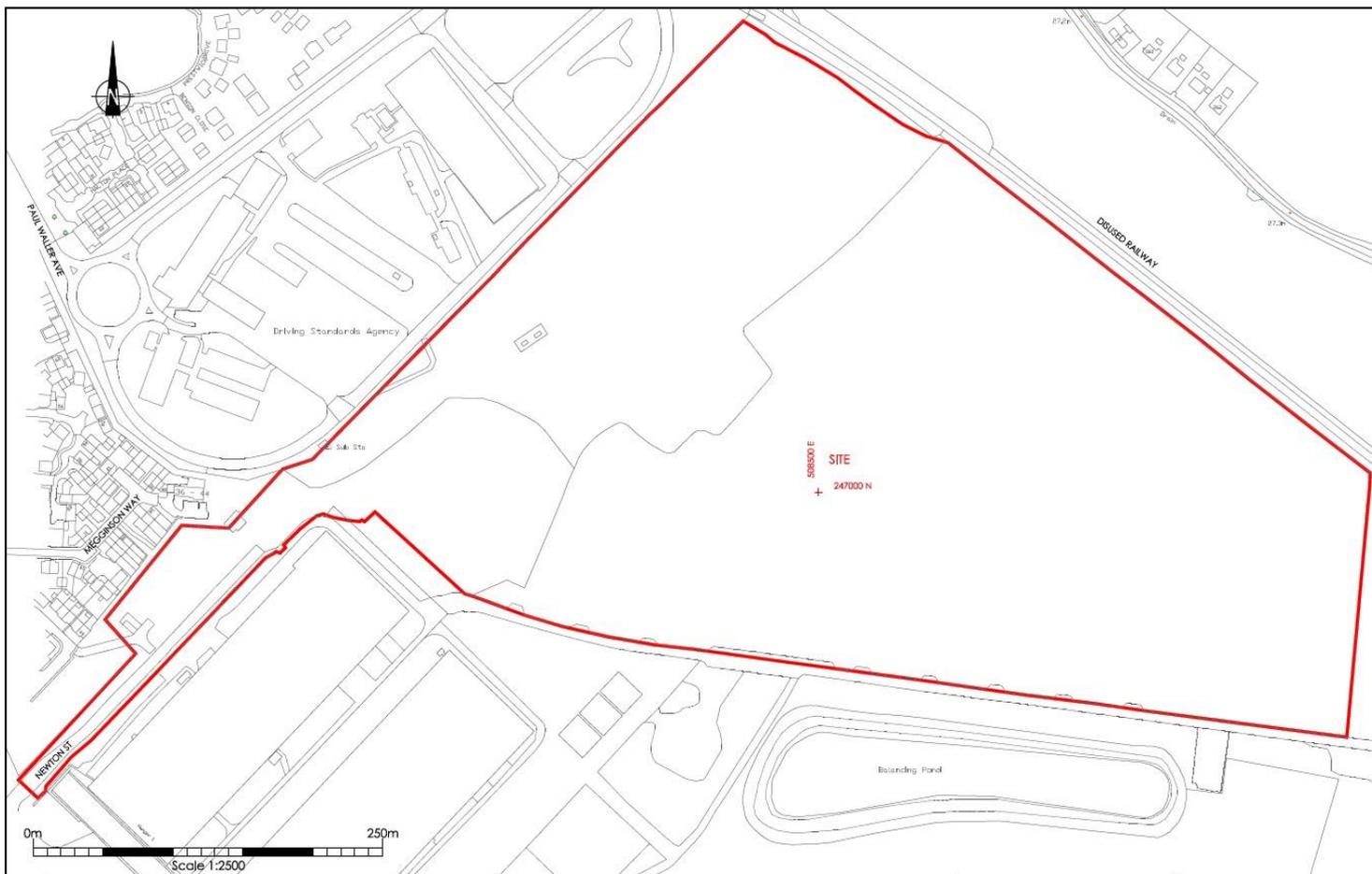
Icosa Water has shared this feedback with Anglian Water and Anglian Water has confirmed that it has noted this feedback and will continue to monitor the risk to permit compliance at its treatment works and take appropriate measures to address this. ,On this basis the Environment Agency confirmed to us on 1 October 2021 that it was content for us to progress to granting this variation.

Conclusion

Having assessed Icosa Water's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Icosa Water's area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 6 October 2021.

Appendix 1: Site Maps

Water



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF ICOSA WATER SERVICES LIMITED AND ANGLIAN WATER SERVICES LIMITED.
 AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 5 October 2021.....

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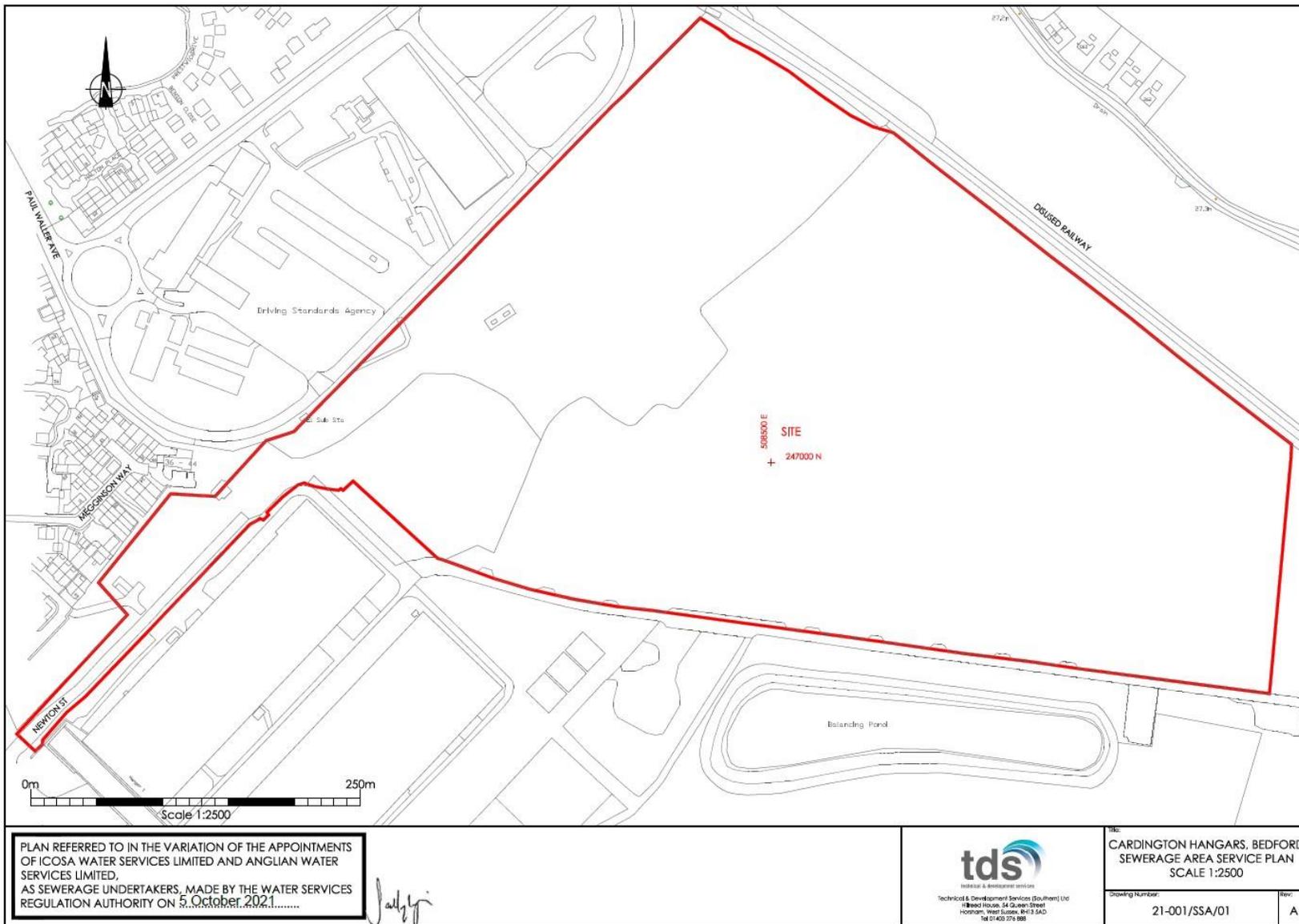


21-001-WSA/01
 CARDINGTON HANGARS, BEDFORD
 WATER AREA SERVICE PLAN
 SCALE 1:2500

Drawing Number: 21-001/WSA/01
 Rev: A

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Sewerage



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