

Proposal to grant a variation of appointment to Icosa Water Services Limited to include the Site, Grange Park A and B, Blackpool

	Details
<b>Applicant</b>	Icosa Water Services Limited (“ <b>Icosa Water</b> ”)
<b>Site Details</b>	Grange Park A and B, Blackpool (“ <b>the Site</b> ”)
<b>Services</b>	Water and sewerage
<b>Current water and sewerage appointee</b>	United Utilities Water Limited (“ <b>United Utilities</b> ”)
<b>Proposed supply arrangements</b>	Bulk supply agreement and bulk discharge agreement with United Utilities.
<b>Criterion</b>	Unserved
<b>Household Customer</b>	131
<b>Business Customers</b>	0
<b>Developer</b>	R. P.Tyson Construction Limited
<b>Estimated Site completion date</b>	March 2025
<b>Summary of consultation</b>	A statutory consultation made under section 8(3) of the Water Industry Act 1991 (“ <b>WIA91</b> ”) to grant Icosa Water a variation to its appointment as a water and sewerage company. To also vary the appointment of United Utilities as a water and sewerage company. Consequently, Icosa Water will become the water and sewerage company for the Site.
<b>Deadline for submissions</b>	<p>Representations or objections to this consultation should be sent by email to <a href="mailto:Licensing@ofwat.gov.uk">Licensing@ofwat.gov.uk</a> or in writing and sent to the NAV licensing team, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA.</p> <p>Reponses must be received by Ofwat no later than <b>17.00</b> hours on <b>1 December 2022</b>.</p>
<p>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 <a href="http://www.ofwat.gov.uk/foi/">http://www.ofwat.gov.uk/foi/</a>.</p> <p>Ofwat will only use the information you have provided for the purpose of this consultation. We will retain your information in accordance with Ofwat’s retention schedule and will not share with third parties unless we have a legal obligation to do so. For further information please see Ofwat’s Privacy Policy in our <a href="#">Publication Scheme</a>.</p>	

# 1. Our assessment of this application

## Our approach

The new appointment and variation mechanism set out in primary legislation<sup>1</sup>, 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.

You can find further details of our approach to assessing applications for New Appointments and Variations ("NAVs") [here](#).

## Unserved status of the Site

Icosa Water is applying for a variation based on the unserved criterion. To qualify under the unserved criterion, an applicant must show that at the time the variation is made, none of the premises in the proposed area of the variation is served by the existing appointee.

United Utilities has provided a letter dated 20 July 2022, confirming that, in its view, the Site is unserved. The letter from United Utilities stated, they have reviewed the proposed area of appointment and initially recognised there was an existing connection within the boundary. It advised the Site had previously been served by United Utilities. However, Icosa Water had provided the required evidence to United Utilities.

United Utilities had then considered that the site is unserved for water and sewerage and confirmed there would be no impediment under the unserved criterion.

Having reviewed the facts of this Site provided by Icosa Water and taking into account the letter from United Utilities for water and sewerage services, we expect to consider the Site to be unserved, but we will ask that Icosa Water and United Utilities to confirm that all existing buildings have been demolished and disconnected before the variation is granted.

## Price

Icosa Water proposes to match the charges to customers on the Site to those of United Utilities.

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<sup>1</sup> The legal framework for new appointments is set out in the WIA91. Section 7 of the WIA91 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.

## Levels of service

Every appointee is required under its licence conditions to publish and make available the Core Customer Information for its household customers. We have assessed Icosa Water's proposed Customer Code of Practice, and our view is that it is of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the scope of Icosa Water's proposed Customer Code of Practice than they would be if United Utilities were to be the customers' water and sewerage company.

## Stakeholder engagement

We take the view of the Environment Agency<sup>2</sup>, the Drinking Water Inspectorate ("**DWI**"), and the Consumer Council for Water ("**CCW**") into account before progressing to formal consultation on an application.

The Environment Agency informed us, in an email of 15 August 2022, that it is content for us to consult on this application, however it provided comments, for Icosa Water to note. It suggested Icosa Water aim for a lower per capita consumption ("**PCC**") than its stated 130 litres per head per day ("**l/h/d**") to achieve the Government aspiration of 110 l/h/d, which Defra expects companies to achieve by 2050. It also suggested that Icosa Water considers reducing its leakage assumption from 5% to 3% or less as the industry leading NAVs (on leakage) are planning for.

On 15 August 2022, Icosa Water confirmed receipt of the comments and confirmed these have been noted.

The DWI is satisfied that Icosa Water understands the obligations under the Water Industry Act 1991 (as amended), the Water Supply (Water Quality) Regulations 2016 (as amended) and the Water Industry (Suppliers' Information) Direction 2021. The DWI therefore raises no comments or objections to Ofwat proceeding to consultation and decision for applications submitted by Icosa Water.

As part of the application process Ofwat has engaged with CCW. CCW's position is that new appointments and variations ("**NAVs**") should bring benefits to customers on the proposed NAV site. CCW expects NAV Appointees to provide consumers with prices, levels of service or service guarantees that match or, ideally, better those of incumbent water and sewerage companies. CCW has stated that it is satisfied that Icosa Water as an established NAV Appointee, offers customers on its NAV sites prices and levels of service which match or better those offered by the incumbent water and sewerage companies which would otherwise serve the site. CCW agrees with Ofwat's assessment that customers on the site will

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<sup>2</sup> The Environment Agency as well as 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.

be no worse off if served by Icosa Water and so, overall, supports the proposed variation of appointment.

CCW recognises that due to the small size of Icosa Water's customer base, it does not currently offer its financial vulnerable customers a social tariff in the way that the incumbent companies do but does offer the standard WaterSure tariff for qualifying customers. CCW considers that it is appropriate for Icosa Water to tailor the services it provides, until it can offer a formal social tariff, ensuring customers are provided with appropriate flexible support where needed.

CCW has also considered the impact on an incumbent's existing customers when a NAV site is approved. It notes that in many cases there is a potential cost on the annual water and sewerage bills of these customers. While this cost is negligible on an individual site basis, CCW is unclear of the wider benefits of the NAV regime for incumbents' customers, particularly as the number of sites in each incumbent area increases and the cumulative cost rises.

## **Impact on existing customers**

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices that United Utilities' 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 to quantify the possible effect in an easily understandable way.

We have assessed the potential magnitude of this impact by comparing how much United Utilities 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.

We estimate no annual increase on the water and sewerage bills of existing United Utilities customers if we grant this variation to Icosa Water. This is once the Site is fully built out.

This estimate 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.

Therefore, we consider that granting this variation to Icosa Water would have no financial impact on customers' bills and could have potential benefits for customers.

## **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 Site relating to the provision of water and sewerage services should the relevant variation be granted.

- Following our review, we are satisfied that the Site demonstrates sufficient financial viability under our standard assessment.
- We are satisfied that the financial security Icosa Water has in place meets our minimum requirements.

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

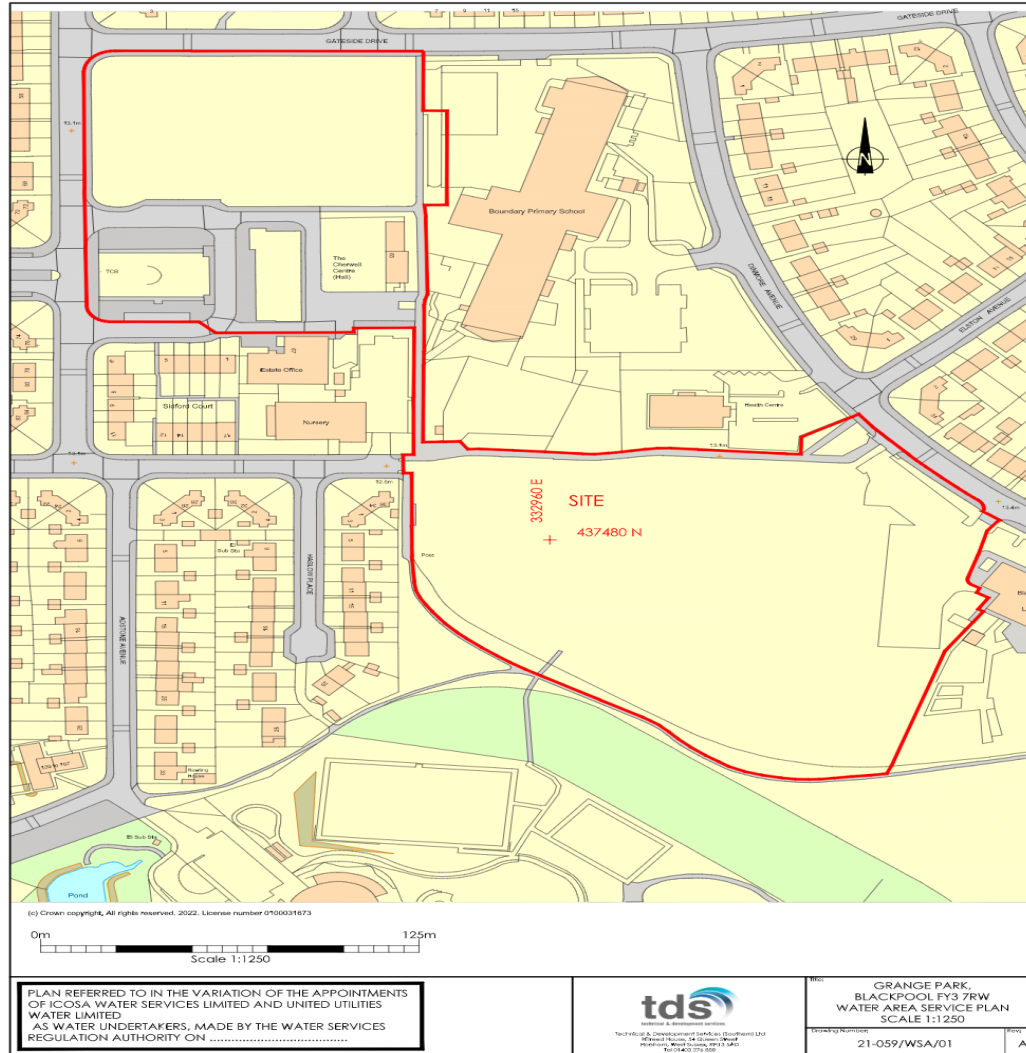
## 2. Conclusion and next steps

In assessing Icosa Water's application, we have considered the general benefits of new appointments and variations. Our 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 variation on the existing customers of United Utilities.

We are currently minded to grant the variation under the unserved criterion. Subject to considering any representations submitted during the consultation period in response to this consultation notice, Ofwat will decide whether or not to grant the variation of appointment set out above.

### 3. Site maps

#### Water boundary





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## Sewerage boundary

