

Proposal to grant a variation of appointment to Icosa Water Services Limited - Land East of Hermitage Lane (Extension)

	Details
Applicant	Icosa Water Services Limited (“ <b>Icosa Water</b> ”)
Site Details	Land East of Hermitage Lane (Extension), Aylesford, Kent (“ <b>the Site</b> ”)
Services	Sewerage Only
Current sewerage appointee	Sewerage Appointee: Southern Water Services Limited (“ <b>Southern Water</b> ”)
Proposed supply arrangements	Bulk discharge agreement with Southern Water
Criterion	Unserved
Household Customer	840
Business Customers	0
Developer	Barratt David Wilson Homes (BDW Trading Limited)
Estimated Site completion date	December 2031
Summary of consultation	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 sewerage company. To also vary the appointment of Southern Water as a sewerage company. Consequently, Icosa Water will become the sewerage company for the Site.
Deadline for submissions	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.  Reponses must be received by Ofwat no later than <b>17.00</b> hours on <b>30 December 2022</b> .

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/>.

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 [Publication Scheme](#).

# 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](#).

## Correction to a variation granted at the same Site

We [granted a variation to Icosa Water's boundary](#) at this Site on 9 August 2022. This new application is a correction to that variation since the previous application was submitted with an incorrect boundary map. The previous application was for 840 connections, which is the number of connections on the whole Site, but the boundary map covered a much smaller area.

ICW discovered the error on 12 August 2022 but did not notify Ofwat until 18 October 2022, when we queried the connection numbers for this new application.

This application for a variation corrects the boundary of the previous variation granted on 9 August 2022, extending it to cover the whole Site. The boundary map in section 3 of this notice shows the extent of both the previous and current variations.

The number of connections is unchanged, being 840, and so Icosa Water's financial model and our assessment of it, is also unchanged. We repeated our assessment that customers would be 'No Worse Off' and our assessment of the impact on the bills of Southern Water's existing customers.

## Unserved status of the Site

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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.

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.

Icosa Water is applying for a variation based on the unserved criterion. Southern Water has provided a letter, dated 14 September 2022, confirming that, in its view, the Site is unserved. Aerial photography confirms that there are no existing buildings within the Site boundary.

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

## Price

Icosa Water proposes to match the charges to customers on the Site to those of Southern Water, it will not offer a discount.

## 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 Southern Water were to be the customers' 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 that it is content for us to consult on this application.

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.

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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.

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

The previous variation granted on 9 August 2022, was submitted for 840 connections which covers the whole Site. Although the connection numbers have not changed in the current application, we have repeated our assessment that customers would be 'No Worse Off' to ensure that it is still applicable.

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

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

We estimate a potential £0.04 annual increase on the sewerage bills of existing Southern Water's 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 a very small 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 or sewerage company.

The previous variation granted on 9 August 2022, was submitted with the financial modelling for 840 connections which covers the whole Site. The financial model for the current application is identical and so we have copied our previous financial assessment below.

We have considered the revenues and costs of the Site relating to the provision of 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 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 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 Southern Water.

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 map

