

By email

Secretary of State for Environment,
Food & Rural Affairs

28 February 2023

Dear Secretary of State,

ICOSA Water – draft water resources management plan 2024 consultation response

ICOSA Water published a draft water resources management plan 2024 (draft WRMP) for consultation in December 2022. We welcome the opportunity to comment on the draft WRMP and this letter sets out a summary of our assessment of the draft WRMP. It is our statutory consultation response, produced in accordance with our statutory duties and the Government's strategic priorities for Ofwat. This letter provides a summary of our assessment of Icosa Water's draft WRMP and should be read alongside our letter setting out the wider context of our review and the general approach to the assessment of draft WRMPs.

Our assessment has considered:

- whether the draft WRMP adequately follows the requirements of the water resources planning guideline and the Department for Environment, Food and Rural Affairs (Defra's) guiding principles for water resources planning;
- how the draft WRMP helps achieve our strategic priorities and objectives, which are, in summary, to protect and enhance the environment, deliver a resilient water sector, serve and protect customers, and use markets to deliver for customers.

ICOSA Water is a new appointee (or NAV which refers to our new appointments and variations process). The NAV framework allows new entrants to become the supplier of water and wastewater services for new developments, instead of the local incumbent water company. The entrants typically not only build the necessary infrastructure for the developments but also provide ongoing retail services. NAVs have an important role in the water sector and have potential to provide wider benefits.

ICOSA Water supplies 15 zones, through bulk supplies of water from the local incumbent water companies (Anglian Water Services (AWS), Affinity Water Limited (AFW), Severn Trent Water Limited (SVT), South East Water (SEW) and Southern Water Services (SWS)). There are a total of 61 commercial properties connected at Icosa developments. Most are small cottage industry type units with water use limited to toilets and washing facilities. The exception to this is a care home, which is located on the Rosewood Park site and a Travelodge, which is located on the Rochester Riverside Site.

Beth Corbould, Director for Water Resources

The company is forecast to maintain a supply surplus throughout the planning period. This means there would be sufficient water to maintain supply to customers during planned-for severe drought conditions.

Ofwat has reviewed Icosa Water's draft water resources management plan for consultation. While many aspects of Icosa Water's draft WRMP are in line with our expectations and Icosa Water has presented a draft WRMP broadly responsive to the scale and complexity of its area, there are a number of important areas where the draft WRMP fails to provide convincing evidence that it delivers in the best interest of customers and the environment. In particular:

- Icosa Water states it is installing technology across its sites to monitor flows and pressure and that this technology will provide Icosa Water with on-demand data to assess network condition and performance. We encourage installing such a monitoring network, as this would also allow Icosa Water to identify and fix leaks as soon as possible. We will expect detailed reporting on leakage rates to Ofwat and expect high performance in this area;
- Icosa Water states its strategy is to reduce per capita consumption to the government's target of 110 litres per head per day (l/h/d). As NAVs generally serve new developments, we consider that NAVs should not be constrained by this target and should aim to drive PCC down to lower levels. Icosa should set out a plan in its final WRMP on how it might achieve much lower PCC levels than 110 l/h/d. This includes setting out in its final plan options for a demand management strategy. Demand options are not included in the draft WRMP, which does not give confidence Icosa Water will deliver against these targets.
- There is no evidence of customer participation in the development of Icosa Water's draft plan, nor any evidence this has been advertised and customers encouraged to engage in the process. Icosa Water should clarify how it has engaged with customers to date and how intends to engage further in the future so customers can inform plan development.
- More details of communication and information sharing between Icosa Water and the incumbent water companies would improve and give confidence to the plan.

Further details on these points are outlined in the annex to this letter alongside more detailed comments on different areas of the draft WRMP. I look forward to seeing these points addressed in Icosa Water's statement of response and final WRMP.

Once Icosa Water has had a chance to consider these comments in detail, we would welcome the opportunity to speak with Icosa Water about them and to hear how Icosa Water plan to address them. My team will be in touch with Icosa Water to arrange a date for this.

Yours sincerely


Beth Corbould
Director, Ofwat

Annex

In this annex we outline further details on the points raised in our main letter alongside more detailed comments on different areas of the draft WRMP. Our points reflect our assessment approach focusing on:

- **Ambition and outcomes** – ambition and innovation notably on water demand, leakage and per capita consumption.
- **Assessment of water needs** – including key drivers for WRMP24 and the supply demand balance forecast.
- **Options to meet water needs** – the approach taken to identifying and screening options for both supply and demand, review of demand management and supply side proposals.
- **Customer and stakeholder engagement** – the type and quality of interaction with customers and stakeholders and the impact this has had on the draft WRMP formulation and proposals.
- **Board assurance** – company assurance and governance processes, including Board engagement and signoff.

Ambition and outcomes

We are expecting companies, including NAVs, to make significant effort on demand reduction including PCC reduction, significant water efficiency activities and delivering low levels of leakage even if there is no deficit predicted. Icosa Water should include more discussion on the technology and practices it plans to use for effective leakage detection and repair.

Leakage

Icosa Water states its leakage strategy is to implement a programme of active leakage monitoring and control to maintain levels of leakage at, or close to, the economic level of leakage¹. Icosa Water has assumed target rates for "unaccounted-for-water" of 5 to 10 percent of distribution input (DI).

As Icosa Water's asset base will be mainly comprised of new assets, Ofwat expects leakage rates to be at very low levels. Installing a monitoring network would also allow Icosa Water to identify and fix leaks as soon as possible. Icosa Water states in its plan it is installing technology across its sites to monitor flows and pressure and that this technology will provide

¹ Economic level of leakage means the level at which the cost of leakage abatement activities exceeds the marginal cost of the water saved.

consumption for forthcoming properties based on incumbent water company data. However, the WRZ level demand forecast remains static once influences of household growth have stopped. The demand forecast should incorporate the impact of demand management strategies, and this should be rectified in Icosa Water's final WRMP.

Icosa Water has explained the drivers behind its plan are focussed on growth based on number of households, and climate change affecting customers use. The latter is incorporated as an assumed 3% increase in demand, incorporated into headroom allowances. In its final plan, Icosa Water should further explain the reasonings behind this climate change allowance assumption.

Icosa Water explains its WRZs remain well within the water available for use, provided by its bulk supply agreements, for their entire planning horizon. As a result, there are no plans or requirement to revise the bulk supply agreements in place with the incumbent water companies.

Icosa Water has demonstrated alignment between its plan and the relevant incumbent water companies' drought plans, referencing levels of service to drought orders and restrictions. More details of communication and information sharing between the incumbent water companies would improve and give confidence to the plan.

Options to meet water needs

Icosa Water has not developed supply or demand options as it does not predict a future deficit and has a surplus throughout the planning period.

Despite forecasting a future surplus, we expect Icosa Water to set out demand management options to reduce demand to meet government and industry targets, as set out above. In its final plan, we expect to see preferred options for Icosa Water's demand management strategy, which may include active leakage control, efficiency options and government interventions. Whilst such activities are referenced in Icosa Water's overarching strategy in the draft WRMP, the plan does not go on to set out or provide any detail of these options when setting out the preferred plan for each WRZ.

Customer and stakeholder engagement

There is no evidence of customer participation in the development of Icosa Water's draft plan. Whilst their draft plan is available on their website with instructions on how to respond, it is not well signposted for customers. There is no evidence this has been advertised or that customers have been encouraged to engage in the process. Icosa Water should clarify how it has engaged with customers to date and how it intends to engage further in the future so customers can fully participate and inform plan development.

Icosa Water should explain how it is engaging customers to gain customer opinion on water efficiency options and decisions within their plan and to understand customers' expectations with regard to engagement, and communication.

Customer and stakeholder engagement should be a key aspect of the development of the WRMP24 plan and Ofwat expects this to be carried out in a meaningful way. Icosa should consider what methods will enable it to best engage with customers and include an explanation of engagement in its plan.

Icosa Water have not set out Drinking Water Safety Plans. For its final plan, Icosa Water should set out Drinking Water Safety Plans and engage with the Drinking Water Inspectorate on these plans.

Icosa Water should explain how customers within its supply area are kept engaged and communicated with relating to water resources and drought, in a way that means they are at no disadvantage in the context of information about their supply and service than customers in the relevant incumbent's supply region.

Assurance

Icosa Water has provided adequate Board assurance of its draft WRMP. A Board statement is provided that the Board have engaged with and overseen the draft WRMP, and are satisfied that the draft WRMP enables Icosa Water to meet its obligations in supplying water and protecting the environment.