



29 June 2023

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

By email: charging@ofwat.gov.uk

Dear Sirs

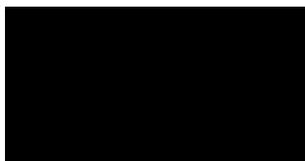
Consultation on changes to Ofwat's New Appointments and Variations Policy and Assessment Guidance

I am writing on behalf of Icosa Water Services Limited (Icosa) in response to the above-mentioned consultation. We welcome the opportunity to contribute.

Our responses to the specific questions are set out in Appendix 1.

This response is confidential and not open to publication.

Yours faithfully,



Raoul de Lange

Icosa Water Services Limited

APPENDIX 1

Question 1

What are your views on the proposed update to our Policy Statement and Application Guidance that would apply to applications for sites in Wales?

Having reviewed the Welsh government Strategic Priorities and Objectives Statement we note that promotion of competition in the water industry is not a priority for the Welsh government. The Welsh government states that it does *“not support the introduction of competition where the activity of new entrants would reduce companies’ overall accountability for the delivery of excellent services to customers and the environment; nor where it would threaten the integrity and efficiency of the management of the water system; nor where it cannot clearly be evidenced that it would be beneficial to customers.”*

Icosa bears the same statutory obligations as incumbent water companies and are equally accountable for the delivery of services to customers measured proportionally against the same metrics. The Welsh government requires the delivery of *“excellent services”* as a minimum to justify the support for competition. In December 2022, Ofwat published a performance report¹ in which Welsh Water was stated as lagging behind in their performance against their performance commitment levels, requiring Welsh Water to *“develop an action plan to address their poor performance.”* In our view the new proposals are now potentially holding Icosa to a significantly higher standard than incumbent water companies in Wales. In addition to its poor performance and despite its ‘not for profit’ status, Welsh Water is the second most expensive sewerage company in the country. Welsh Water’s monopoly stronghold over the new connections market in Wales is ultimately driving new house prices up by preventing housebuilders from accessing lower cost water and wastewater connections for new homes.

We have addressed the specific benefits referred to in your drafting proposals below:

Discounted charges

Icosa is already required to operate its business on wafer thin margins provided to us by the incumbents, so requiring discounted rates to customers makes it more difficult to overcome Ofwat’s hurdle rates in terms of profitability when NAV applications are analysed during the NAV application process.

NAVs do however lower connection charges to housebuilders meaning that developers are able to offer more affordable new homes. These lower connection charges also enable land for housebuilding that would be otherwise be locked by the high connection charges of the incumbent monopolies.

Water efficiency

Enhanced water efficiency could be seen as meeting the optional Building Regulations requirements which are controlled by a developer. Whilst Icosa does work with developers with the aim of introducing water efficiency measures, Icosa cannot control what measures developers choose to propose during the planning process. On virtually all Icosa sites, developers approach Icosa after planning has been approved.

¹ Water company performance report 2021-2022

Developing greater water efficiency through retrofits (including options such as rainwater harvesting; water re-use and storage options) is potentially difficult to convince end customer to implement and certainly impossible to evidence at the time of submitting a NAV application.

NAVs are heavily incentivised to minimise their network losses. Broadly speaking, every £1 of water purchased at the bulk supply that is not sold to end customers costs the NAV £3 because the incumbent's bulk water meter also drives their bulk wastewater charges. NAVs are therefore significantly more incentivised to manage leakage than incumbents.

Many incumbent water companies in England offer environmental credits to incentivise housebuilders to build more water efficient homes. We have been unable to identify any such scheme being offered by Welsh Water. This inevitably means that new homes in Wales will use more water than new homes in England. This is interesting given that water efficiency is a guiding principle of Welsh Government policy²

Sustainable drainage arrangements

Since 7th January 2019, all new developments of more than 1 dwelling house or where the construction area is 100 square meters or more, required sustainable drainage systems (SuDS) for surface water, to be designed and built in accordance with Statutory SuDS Standards published by the Welsh ministers. SuDS Schemes must be approved by the local authority acting in its SuDS Approving Body (SAB) role, before construction work begins. Sustainable drainage will be required by the planning authorities whether or not Icosa is selected to provide services to a site, so it is difficult to see how Icosa could claim the introduction of SuDS features as an enhanced service to end customers.

Should Ofwat be required to introduce these amendments we would propose the following drafting changes:

- That the word customer be preceded by the word "end" for the sake of consistency.
- That in the new section 5.1.5 on page 8, the word "current" is replaced with the word "currently".

Question 2

What are your views on how, with respect to this policy proposal, we can best achieve our aim that regulatory burdens are kept to a minimum while ensuring companies deliver the best outcomes for customers?

The requirement to submit NAV applications for each project is already a regulatory burden that, in some cases, disincentivises developers from going down the NAV route. Having to provide additional evidence of enhanced end customer benefits (as opposed to the 'no worse-off' criterion currently required) will surely not improve this, other than if Icosa offers customers discounted prices, an option already include in the existing NAV application on the Ofwat portal.

² www.gov.wales/sites/default/files/publications/2021-12/water-resources-management-plan-guidance-2022.pdf

Question 3

What are your views on introducing similar requirements for sites in England at some point in the future?

For the reasons stated above, we do not support the introduction of similar requirements in England.

Icosa believes that the Welsh government's proposal is possibly driven by Welsh Water's 'not for profit' status. Welsh Water's objective is to get the Welsh Government to introduce legislation which protects its monopoly market from competition. As stated earlier, Welsh Water is the second most expensive wastewater company and has been identified as needing to improve their poor performance.

Competition should ultimately drive efficiency. If NAVs flourish, then they will bring much needed efficiency and innovation to the market. Wales is falling behind England because the Welsh government is protecting Welsh Water's monopoly. The introduction of similar requirements in England would be very harmful to the housebuilding sector and to the hope of driving efficiency and innovation into the water industry.