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Trust in water

New Appointment for Icosa Water Services Limited to serve West Raynham

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1. About this document

Ofwat grants new appointment to Icosa Water Services Limited

On 24 February 2017, Ofwat began a consultation on a proposal to grant a new appointment to Icosa Water Services Limited (“**IWS**”) to become the water and sewerage services provider for a site in Icosa Water Limited (“**ICO**”)’s water supply area and sewerage services area called West Raynham in Norfolk (“**the Site**”). IWS is a subsidiary company of ICO. The Site will consist of 172 household properties and 7 non-household properties. The consultation ended on 27 March 2017.

During the consultation period, we received one representation, which we considered in making our decision.

On 31 May 2017, we granted a new appointment to IWS to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for granting this appointment.

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2. Introduction

The new appointment and variation mechanism, set out in primary legislation, allows one company to replace the current company 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 companies to expand into areas where they are not the appointed company. In this case, IWS applied for a new appointment as the appointed water and sewerage company for the Site. From 21 October 2016, the water and sewerage services to the Site were provided by ICO. Prior to that the Site fell within the water supply and sewerage services areas of Anglian Water but the premises on the Site were privately served for both water and sewerage services.

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 non-household 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.

3. The application

IWS applied to be the water and sewerage services appointee for the Site under the consent criterion set out in section 7(4)(a) of the Water Industry Act 1991 (“**WIA91**”). IWS will serve the Site by entering into a bulk supply agreement with Anglian Water to provide water services to the Site and will provide sewerage services itself.

ICO was granted a new appointment to serve the Site for water and sewerage services on 21 October 2016. IWS, is a subsidiary of ICO, and it applied to replace ICO as the undertaker for the Site, with ICO’s consent. In assessing IWS’ application, we assessed whether customers on the Site would be no worse off against both Anglian Water’s charges and ICO’s charges as the Site was only served by ICO for about seven months.

3.1 Financial viability of the proposal

We will only make an appointment 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 that the proposal was at low risk of being financially non-viable.

3.2 Assessment of ‘no worse off’

IWS will charge customers based on Anglian Water’s existing metered water and sewerage tariffs with an initial £5 per year discount when compared to Anglian Water’s sewerage tariff.

We previously assessed the Codes of Practice and a Charges Scheme of ICO against those of Anglian Water as part of ICO’s application for an appointment to serve the Site and we were satisfied that customers on the Site would be no worst off as a result of ICO’s appointment to serve the Site.

IWS’ Codes of Practice and Charges Scheme are the same as those that were provided by ICO. As such, we consider that customers will continue to be ‘no worse off’ being served by IWS instead of by ICO.

3.3 Effect of appointment on ICO

The Site was the only area for which ICO was the appointed water and sewerage company. As a result of this appointment, we have therefore terminated the appointments of ICO as a water and sewerage undertaker.

As ICO does not have any remaining customers, the appointment of IWS to serve the Site will not have a financial impact on any other customers outside of the Site.

3.4 Developer and customer choice

Where relevant, we take into consideration the choices of the Site's customers or developers. In this case, the Site owner said that it wanted IWS to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received one response to our consultation, from the Consumer Council for Water (“**CCWater**”). CCWater said that it had no concerns about the proposal to grant a new appointment to IWS, in place of ICO.

5. Conclusion

Having assessed IWS's application, and having taken account of the response we received to our consultation, we decided to grant a new appointment to IWS to allow it to serve the Site for water and sewerage services. This appointment became effective on 1 June 2017.