

21 May 2019

Trust in water

Variation of Icosa Water Services Limited's appointment to enable it to serve Springhead Park

1. About this document

Variation of Icosa Water Services Limited's appointment to include Springhead Park

On 20 December 2017, Ofwat began a [consultation](#) on a proposal to vary Icosa Water Services Limited's ("IWS") appointment to become the sewerage services provider for a development in Southern Water's ("SRN") sewerage services area called Springhead Park in Ebbsfleet ("the Site"). The consultation ended on 24 January 2018. During the consultation period, we received representations from one organisation, the Consumer Council for Water ("CCWater").

We received the bulk discharge agreement on 12 March 2019 and continued with our assessment. On 21 March 2019, we granted IWS a variation to its existing appointment to enable it to provide sewerage services to the Site.

This notice gives our reasons for making this variation.

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2. Introduction

The new appointment and variation (NAV) mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of water and 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 to replace SRN to become the appointed sewerage company for the site.

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 NAVs, 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 NAVs, 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 sewerage services appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). IWS will serve the Site by way of a bulk discharge agreement with SRN.

3.1 Unserved status of the site

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.

IWS has applied under the unserved criterion which is set out in section 7(4)(b) of WIA91. IWS confirmed the Site is greenfield and IWS has provided a map showing the sewerage boundaries for the Site overlaid on the SRN asset map. SRN agreed that the Site is unserved. Based on the information provided, we are content that the site is unserved.

3.2 Financial viability of the proposal

We will only make a variation 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 the Site demonstrates sufficient financial viability, and IWS has satisfied us that it can finance its functions and that it is able to properly carry them out.

3.3 Assessment of ‘no worse off’

IWS will charge customers based on SRN's existing wastewater household tariffs. IWS is not offering a discount on these tariffs.

IWS will offer the WaterSure¹ tariff to qualifying customers, ensuring such customers will be no worse off from being supplied by IWS rather than SRN.

¹The WaterSure scheme allows households on meters who receive certain means tested benefits or tax credits, and who are either responsible for three or more children under the age of 19, or have a medical condition which requires significant additional use of water, to pay no more than the average household bill for its region.

With regard to service levels, we have reviewed IWS' Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of SRN. Based on this review, we are satisfied that customers will be offered an appropriate level of service by IWS and that overall customers will be 'no worse off' being served by IWS instead of by SRN.

3.4 Effect of appointment on SRN's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the price that SRN'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 on customers of SRN. It is therefore necessary to use a simplified set of figures. We usually express the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way.

In this case, we have calculated that if we grant the Site to IWS, the potential impact on the bills of SRN's existing customers (in respect of sewerage services) is below £0.002 per year.

This impact does not take into account the potential spillover benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win new sites.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Countryside Properties (UK) Limited, said that it wanted IWS to be the 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**”). We considered the response before making the decision to vary IWS's appointment.

4.1 **CCWater**

Overall CCWater supports this application, and looks forward to working with IWS in assessing future service levels and voluntary standards to ensure that customers continue to be ‘no worse off’.

CCWater noted that IWS proposes to charge customers based on SRN's existing sewerage household tariffs, noting that customers will be no worse off, nor will they be any better off. Ideally, in its view, existing customers should receive some benefit from the new arrangements. CCWater also noted that customers will no longer benefit from having a single bill for water and sewerage charges. However, CCWater appreciates that IWS generally improves on the service standards provided by SRN, such as offering more favourable compensation in areas such as failing to respond to written complaints.

Finally, CCWater noted that IWS does not operate a formal Trust Fund or social tariff, and agrees that, because of its size, it may not be appropriate to do so at this point. However, CCWater expects new appointees to review services as their customer base grows, especially in provision to any customers in debt or financial hardship.

5. Conclusion

Having assessed IWS's application, and having taken account of the response we received to our consultation, we decided to grant a variation to IWS's area of appointment to allow it to serve the Site for sewerage services. This appointment became effective on 22 March 2019.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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May 2019

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