

20 December 2017

Trust in water

Variation of Icosa Water Services Limited's appointment to enable it to serve Union Corner

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1. About this document

Variation of Icosa Water Services Limited's appointment to include Union Corner

On 9 October 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 South West Water's ("SWB") sewerage services area called Union Corner in Falmouth, Cornwall ("the site"). The consultation ended on 6 November 2017. During the consultation period, we received representations from two organisations, the Consumer Council for Water ("CCWater") and SWB.

We received the bulk discharge agreement on 22 November 2017 and continued with our assessment. On 19 December, we granted IWS a variation to its existing appointment to enable it to 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 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 SWB 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 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 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 a bulk discharge agreement with SWB.

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 did confirm the Site is greenfield. IWS has provided a map showing the sewerage boundaries for the Site overlaid on the SWB asset map. SWB agree that the Site is unserved.

3.2 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 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 SWB’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 SWB.

With regard to service levels, we have reviewed IWS's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the

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.

performance commitments of SWB. 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 SWB.

3.4 Effect of appointment on SWB'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 SWB'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 SWB. It is therefore necessary to use a simplified set of figures. We usually expressed 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 SWB's existing customers is below £0.006 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, Barratt David Homes, said that it wanted IWS to be the sewerage company for the site.

4. Responses received to the consultation

We received two responses to our consultation; from the Consumer Council for Water (“**CCWater**”) and SWB. We considered these responses 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 SWB'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 SWB.

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.

4.2 **SWB**

SWB support the development of markets where customers are likely to benefit, or at least where there will be no detriment. Although it has been calculated SWB's customers could potentially see a difference of £0.006 to their annual bills, SWB agree this is negligible; and that the variation promotes the potential for dynamic efficiencies that may benefit customers in the longer term.

5. Conclusion

Having assessed IWS's application, and having taken account of the responses 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 20 December 2017.