

November 2018

Trust in water

Variation of Icosa Water Services Limited's appointment to include Rochester Riverside

1. About this document

Variation of Icosa Water Services Limited's appointment to include Rochester Riverside

On 10 September 2018, Ofwat began a [consultation](#) on a proposal to vary Icosa Water Services Limited's appointment to become the water and sewerage services provider for a development in Southern Water Services Limited's water supply area called Rochester Riverside in Rochester, Kent ("**the Site**").

The consultation ended on 9 October 2018. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 17 October 2018, Icosa Water Services Limited requested that the applications for both water and sewerage services be separated and that the application to become the water services provider be taken forward on its own. On 31 October 2018, we granted Icosa Water Services Limited a variation to its existing appointment to enable it to supply water services to the Site.

This notice gives our reasons for making this variation.

Contents

1. About this document	2
2. Introduction	4
3. The application	6
4. Responses received to the consultation	8
5. Conclusion	9
Appendix 1: Site Map	10

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, Icosa Water Services Limited applied to replace Southern Water Services Limited to become the appointed water 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 business 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

Icosa Water Services Limited applied to be the water appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Icosa Water Services Limited will serve the Site by using an agreement for the bulk supply of water with Southern Water Services Limited.

3.1 Unserved status of the site

To qualify under the unserved criterion, an applicant must show that at the time the appointment or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

Icosa Water Services Limited submitted an independent reporter's site status report to us to verify the unserved nature of the Site. Southern Water Services Limited confirmed that the Site is unserved for water.

It is recognised that Southern Water Services Limited provides water services to business customers located within the wider area covered by the application. These business customers are currently served, and will continue to be served by Southern Water Services Limited. The area in which the commercial premises are all located has been carved out of the Site area, and does not form part of the application.

On this basis, we are satisfied that the Site is unserved.

3.2 Financial viability of the proposal

We will only make an appointment or 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 Icosa Water Services Limited 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'

Icosa Water Services Limited will match its customer charges with the charges of customers at Southern Water Services Limited. It will not be offering a discount.

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

3.4 Effect of variation on Southern Water Services Limited'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 Southern Water Services Limited'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 Southern Water Services Limited. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way. Broadly, we have assessed the potential magnitude of this impact by comparing how much Southern Water Services Limited might have expected to receive in revenue from serving the Site directly, were they to serve the Site, with the revenues they might expect from the proposed arrangement with Icosa Water Services Limited.

In this case, we have calculated that if we grant the Site to Icosa Water Services Limited, there may be a potential impact on the bills of Southern Water Services Limited's existing customers of £0.02.

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, said that it wanted Icosa Water Services Limited to be the water 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 the Environment Agency (**EA**). We considered these responses before making the decision to vary Icosa Water Services Limited's appointment. The points raised in the responses are set out below.

4.1 CCWater

CCWater responded to our consultation setting out that, overall, it supports the application from Icosa Water Services Limited. CCWater welcomed Icosa Water Services Limited's approach of offering guaranteed standards and voluntary service standards which generally match or improve on the standards offered by Southern Water Services Limited.

CCWater was disappointed that there is no direct financial benefit to customers from having Icosa Water Services Limited as their provider of water instead of Southern Water Services Limited. However, CCWater notes that Icosa Water Services Limited improves on many of the service standards provided by Southern Water Services Limited.

We have noted CCWater's concern that there is no direct financial benefit to customers. One of our key policies is that customers should be 'no worse off' if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of price and service than if they had been supplied by the previous incumbent. This requirement has been met by Icosa Water Services Limited in its proposal to improve the levels of service and match the pricing set by Southern Water Services Limited. We do not require applicants to better the service and price of the previous incumbents.

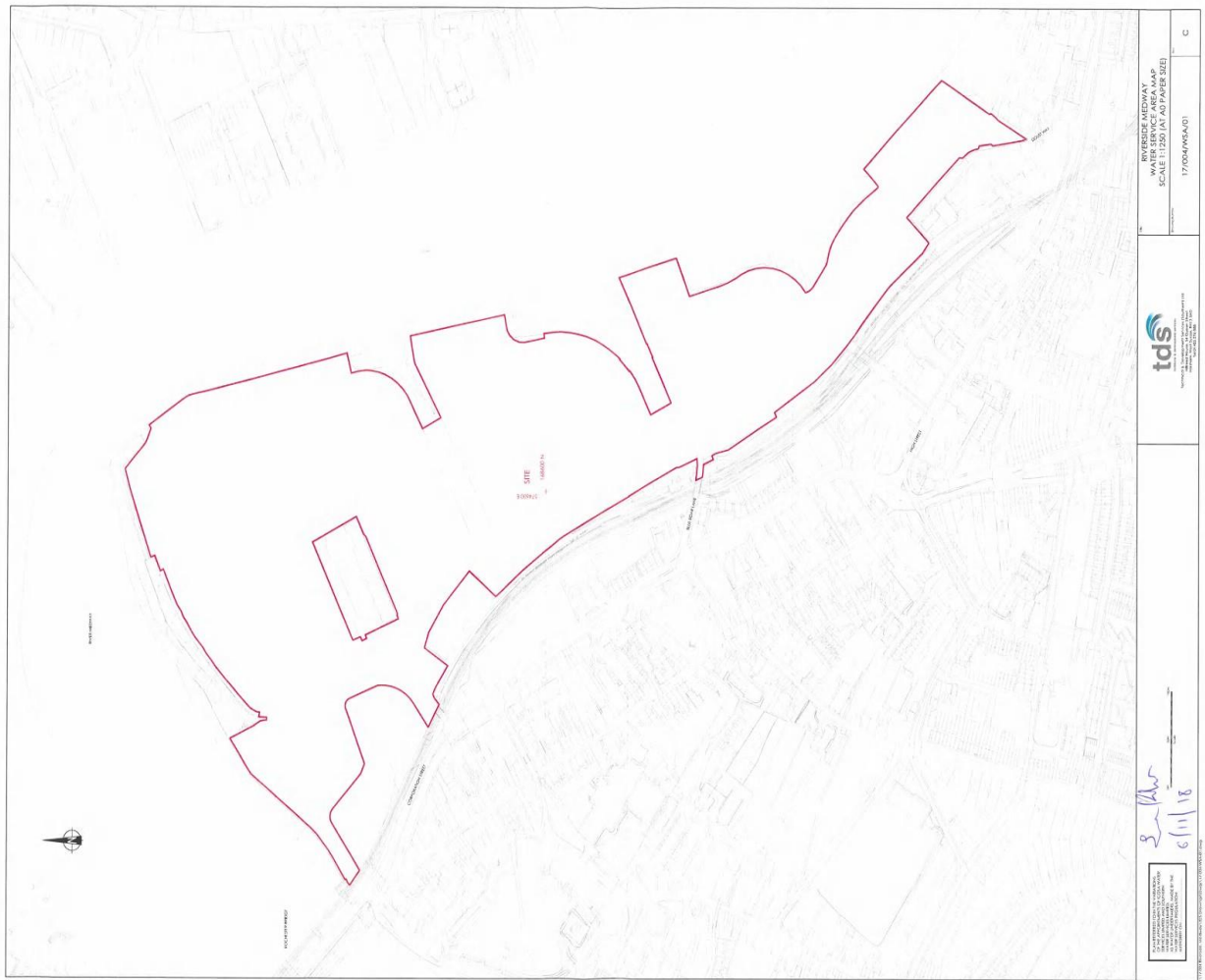
4.2 EA

The EA confirmed that it had no objection to the application to provide water services. The EA had a number of points it would like to have considered before a further application to provide sewerage services was progressed.

5. Conclusion

Having assessed Icosa Water Services Limited's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Icosa Water Services Limited's area of appointment to allow it to serve the Site for water. This variation became effective on 1 November 2018.

Appendix 1: Site Map



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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