

January 2019

Trust in water

# Variation of Icosa Water Services Limited's appointment to include Rownhams, Southampton

## 1. About this document

### Variation of Icosa Water Services Limited's appointment to include Rownhams

On 19 November 2018, Ofwat began a [consultation](#) on a proposal to vary Icosa Water Services Limited's ("**IWS**") appointment to enable it to become the sewerage services provider for a development in Southern Water Services Limited's ("**SRN**") sewerage services area called Rownhams in Southampton ("**the Site**").

The consultation ended on 17 December 2018. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 10 January 2019, we granted IWS a variation to its existing appointment to enable it to supply sewerage 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	10
Appendix 1: Site Map	11

## 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/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 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 ("**NAV**") 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**

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, allowing it to discharge sewage from the Site into the sewers of SRN.

#### **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.

IWS has provided an independent report which confirms the Site is unserved. We sent this report to SRN and it confirmed that it agrees with the findings in the report.

There is one property on the Site which currently has private sewerage arrangements. It is not connected to SRN's network for sewerage services. The developer confirmed that two properties which were within the Site boundary, and connected to SRN's network for sewerage services, have been demolished to make the new access road for the development. There are no other served properties on the Site.

Having reviewed the facts of this Site, and taking into account the independent report, we consider the Site to be unserved for sewerage.

#### **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.

IWS submitted its application on a package basis. The financial assessment was combined with Perry Court Farm, West Durrington, Thannington and Lindfield. The reason for this approach was that IWS was not able to demonstrate the financial viability of some applications under our standard site-by-site assessment. IWS decided to submit the five sites as a combined package, which allows lower risk sites to support higher risk sites. Although not expressly set out in our published policy, this approach has been endorsed previously.

### **3.3 Assessment of 'no worse off'**

IWS will offer charges equivalent to those of SRN.

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

### **3.4 Effect of variation 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. 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 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 SRN 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 IWS.

In this case, we have calculated that we calculated that there may be a potential impact on the bills of SRN's existing customers of £0.002.

This impact does not take into account the potential spill over 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 (Taylor Wimpey Southern Counties) said that it wanted IWS to be the sewerage company for the Site.

## **4. Responses received to the consultation**

We received three responses to our consultation, namely from the Consumer Council for Water (“CCWater”), the Environment Agency (“EA”) and SRN. We considered these responses before making the decision to vary IWS' appointment. The points raised in the responses are set out below.

### **4.1 CCWater**

Overall, CCWater agrees with Ofwat's assessment that customers will be no worse off if served by IWS instead of SRN. CCWater accepts that given IWS' relatively small size and disparate nature of its customer base, it may be appropriate for IWS to tailor some of the services that it provides. Until it can provide a social tariff, CCWater stated that it would expect IWS to offer appropriate, flexible support to any individual customers in financial difficulty that would otherwise benefit from a social tariff. CCWater expects that this should not be at the expense of IWS' other customers since the company is not currently in a position to research the views of its customers on the potential for a cross-subsidy.

CCWater noted that there would be a very low cost passed on to SRN's existing customers although it did not see that they would receive any significant benefit. CCWater also highlighted that it is disappointed that there is no direct financial benefit to customers on the Site as a result of having IWS as its water supply provider in that customers on the Site will not receive a discount.

### **Our response**

One of Ofwat's key NAV policies is that customers should be 'no worse off' if a NAV is granted. In other words, an applicant must ensure its new customers are made no worse off in terms of price and service than if they had been served by the previous incumbent. This requirement has been met by IWS in its proposal to improve the levels of service and match the pricing set by SRN. We do not require applicants to offer a better service and price than the previous incumbent.

### **4.2 EA**

The EA responded to advise that it has no further comments.

### **4.3 SRN**

SRN confirmed that it had no further representations to make in response to our consultation.

## **5. Conclusion**

Having assessed IWS' application, and having taken account of the responses we received to our consultation, we decided to grant a variation to IWS' area of appointment to allow it to serve the Site for sewerage services. This variation became effective on 12 January 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.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk)

January 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk).

