

20 May 2019

Trust in water

**Variation of Icosa Water Services Limited's
appointment to include Hen and Duckhurst
Farm, Marden Road, Staplehurst**

1. About this document

Variation of Icosa Water Services Limited's appointment to include Hen and Duckhurst Farm, Marden Road

On 6 November 2018, Ofwat began a [consultation on a proposal](#) to vary of Icosa Water Services Limited's (**Icosa Water**) appointment to become the water and sewerage services provider for a development in South East Water Limited's (**SEW**) water supply area and Southern Water Services Limited's (**SRN**) sewerage services area called Hen and Duckhurst Farm ("**the Site**").

The consultation ended on 4 December 2018. During the consultation period, we received representations from one organisation, the Consumer Council for Water (**CCWater**), which we considered in making our decision. On 14 May 2019, we granted Icosa Water a variation to its existing appointment to enable it to supply water and 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	9
	Appendix 1: Site Maps	10

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, Icosa Water applied to replace SEW and SRN to become the appointed water and 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 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 an impetus 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 applied to be the water and sewerage services appointee for the site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Icosa Water will serve the Site by way of bulk supply and discharge agreement.

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.

We have a letter from SEW and SRN confirming its view that the Site is unserved. We also have an independent report that the Site is unserved. Icosa Water appointed Creoda Consulting Limited (“Creoda”) as an independent adviser to produce a reporter's report on the unserved status of the Site. The report dated July 2018 confirms that the Site is considered a greenfield site with no current water or sewerage connections to household or non-household premises. Creoda has provided aerial maps in addition to asset maps from the incumbents which also show that the Site is currently unserved. We are satisfied 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 Icosa Water 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 will offer no discount and will match the SEW and SRN tariff charges.

With regard to service levels, we have reviewed Icosa Water's Codes of Practice and its proposed service levels. We have compared these to the Codes of Practice and the performance commitments of SEW and SRN. Based on this review, we are satisfied that customers will be offered an appropriate level of service by Icosa Water

and that overall customers will be 'no worse off' being served by Icosa Water instead of by SEW and SRN.

3.4 Effect of appointment on SEW and 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 SEW and 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 SEW and 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 SEW and 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 Icosa Water.

In this case, we have calculated that if we grant the Site to Icosa Water, there may be a potential impact on the bills of SEW and SRN's existing customers of £0.003 to water bills and £0.005 to sewerage bills.

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.

We therefore consider that granting this new variation to Icosa Water would have a negligible impact (if any) on customers' bills and could have potential benefits for customers.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developers Barratt Homes and David Wilson Homes said that it wanted Icosa Water to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received one response to our consultation from CCWater. We considered this response before making the decision to vary Icosa Water's appointment. The points raised in the response are set out below.

4.1 CCWater

In its response, CCWater stated it was disappointed that there are no direct financial benefits to customers from being served by Icosa Water rather than SEW for water services or SRN for sewerage services, as Icosa Water proposes to charge its customers the same rate as SRN. It noted that Icosa Water does not offer a social tariff, which SEW and SRN does. However, it also noted that Icosa Water proposes to match or exceed many of the service standards currently provided by SEW and SRN, notably more generous compensation in the event of service failures or following sewer flooding. For this reason, CCWater supports our proposal and agrees with our assessment that customers will be no worse off.

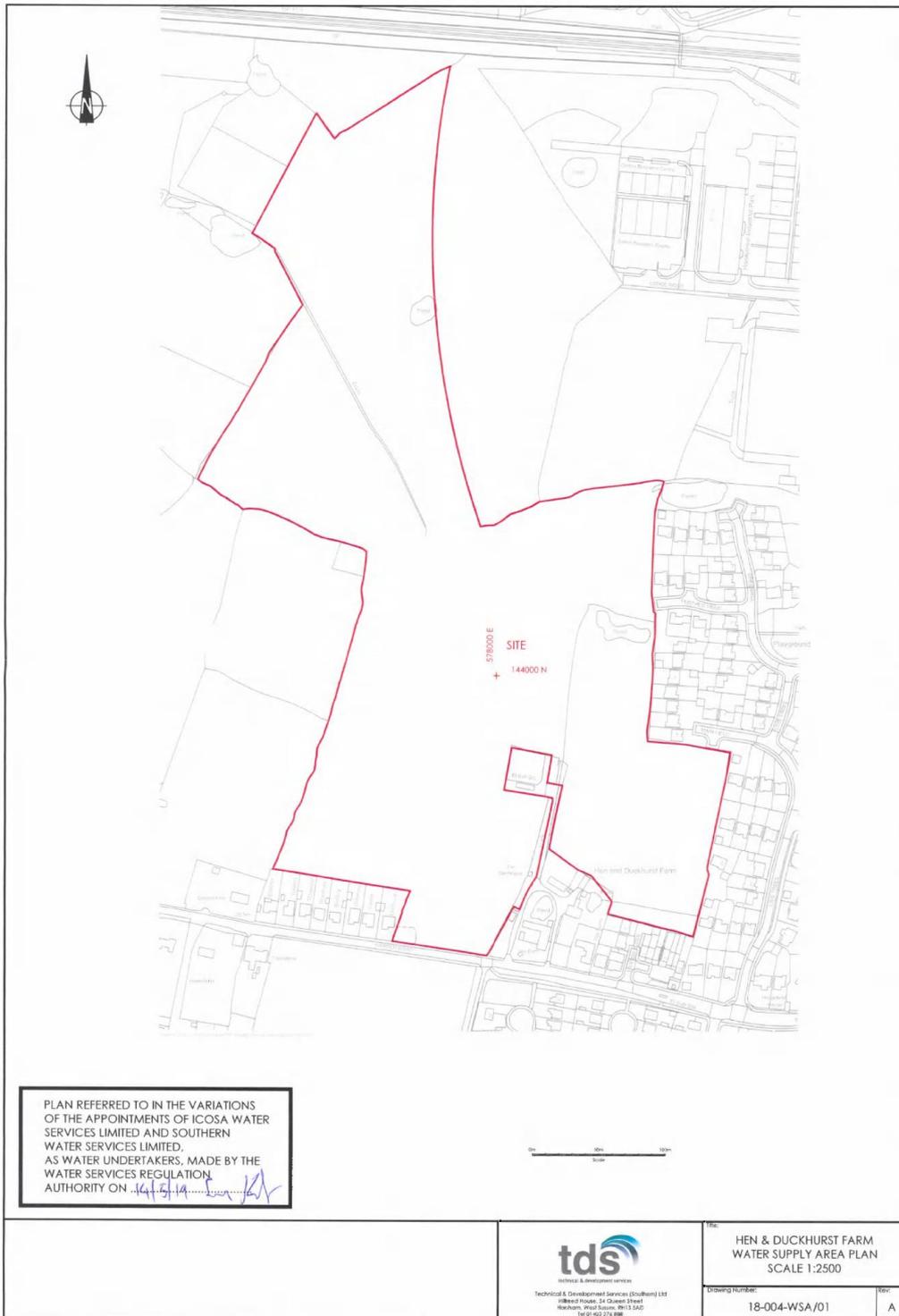
We have noted CCWater's concern that there is no direct financial benefit to customers. One of our key policies is that customers should be 'no worse off' if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of price and service than if they had been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

5. Conclusion

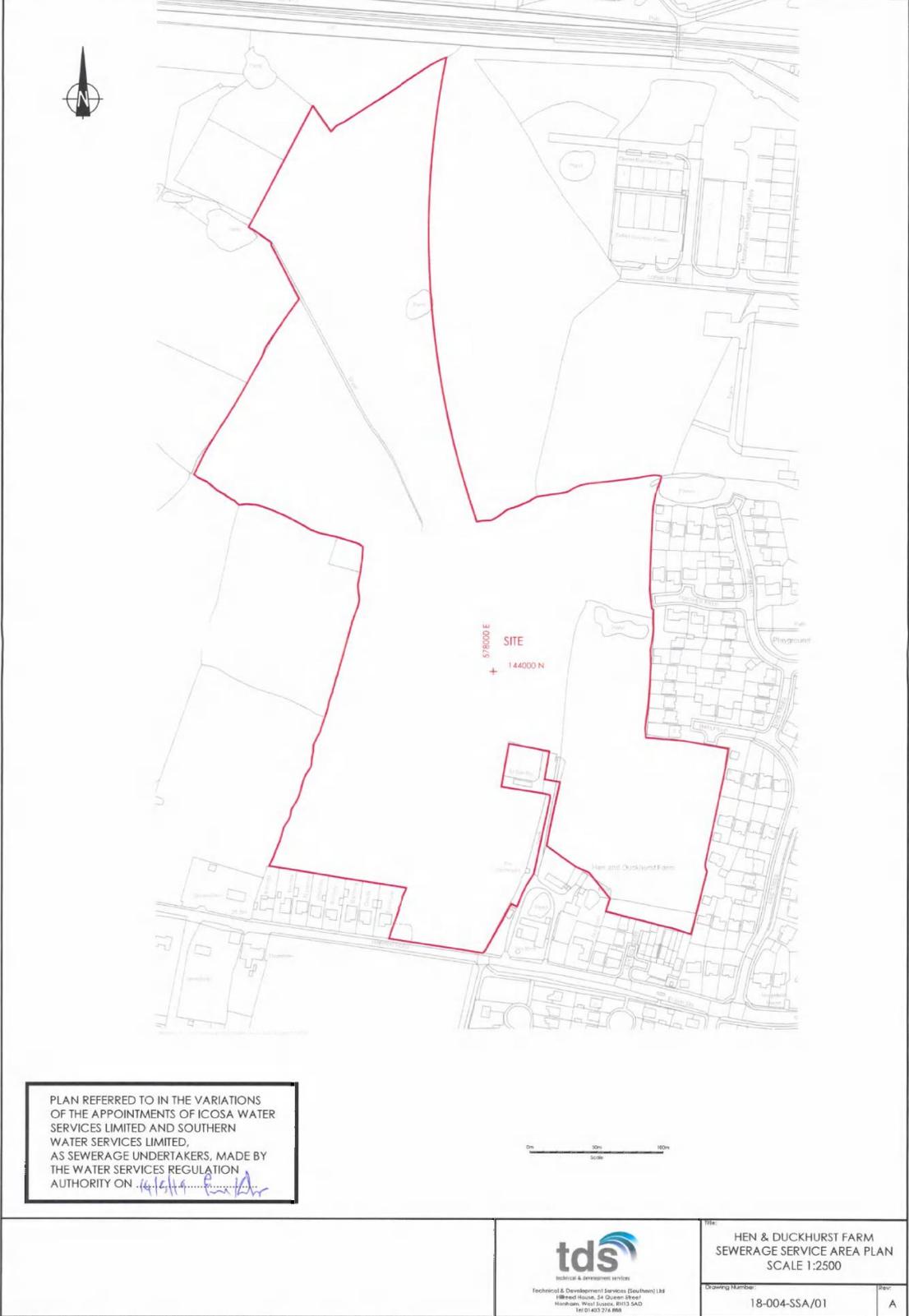
Having assessed Icosa Water 's application, and having taken account of the response we received to our consultation, we decided to grant a variation to Icosa Water 's area of appointment to allow it to serve the Site for water and sewerage services and consequentially vary the appointments of SEW and SRN. This appointment became effective on 15 May 2019.

Appendix 1: Site Maps

Water



Wastewater



E:\18-004 Hen and Duckhurst Farm, Staplehurst\TDS Drawings\Drawings\18-004-SSA-01.dwg David Harrington 31/05/2018 14:13:49

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
Email: mailbox@ofwat.gsi.gov.uk

May 2019

© Crown copyright 2018

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.

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.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

