

August 2019

Trust in water

Variation of Icosa Water Services Limited's appointment to include Saxon Mills, London Road, Hassocks

1. About this document

Variation of Icosa Water Services Limited's appointment to include Saxon Mills, London Road, Hassocks.

On 27 June 2019, 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 Saxon Mills, London Road, Hassocks, in West Sussex ("**the Site**").

The consultation ended on 25 July 2019. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 12 August 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.

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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/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) 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.

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.

The Site is currently in development with the first customers expected on site in August 2019. On 10 April 2019 IWS provided Ofwat with an independent report which confirmed the Site is unserved. In May 2019, we asked IWS for confirmation that the site remained unserved and in May we received confirmation from BDW Southern Counties via IWS that the site remains unserved. We again requested confirmation on the 9th August 2019 from IWS that the site remained unserved. BDW Southern Counties confirmed that there are no properties connected to the existing foul network at London Road and that the site is currently being tankered. Having reviewed the facts of this Site and taking into account the information from SRN, the independent report, BDW Southern Counties and IWS, we consider the Site to be 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 are satisfied that 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 offer charges equivalent to those of SRN to customers on the Site, that is, it will not offer a discount.

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 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. 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 £0.001.

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 (BDW 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; from the Consumer Council for Water ("CCWater"), the Environment Agency ("EA") and the Drinking Water Inspectorate ("DWI"). We considered these responses before making the decision to vary IWS's appointment. The points raised in the responses are set out below.

4.1 CCWater

In its response to the consultation, CCWater stated that it was disappointed that customers will not receive any financial benefit from having IWS as its service provider as opposed to SRN. However, CCWater supports the application as IWS improves on most of the service standards offered by SRN.

Our response

One of the key policies in deciding whether to grant an appointment variation is that customers should be 'no worse off' if the variation is granted. In other words, an applicant must ensure its customers will be 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 IWS in its proposal to improve the levels of service and match the pricing set by SRN.

We do not require applicants to better the service and price of the previous incumbent.

4.2 EA

The EA's response stated responded that it has no further comments to make and has no objection to the application.

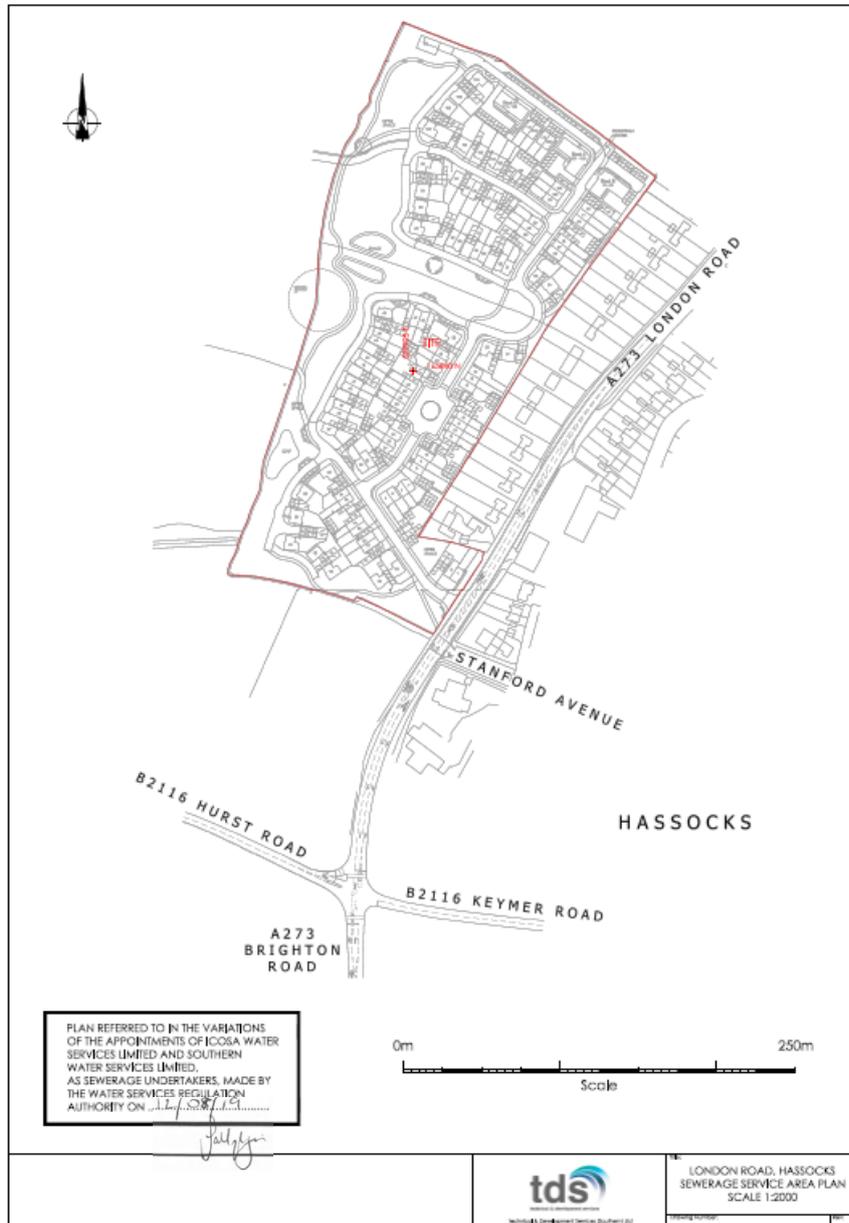
4.3 DWI

The DWI responded by saying it is content for Ofwat to proceed with the application as IWS is known to the DWI and it is content that IWS is competent and conversant with its obligations under the Water Supply (Water Quality) Regulations 2016 (as amended).

5. Conclusion

Having assessed IWS's application, and having taken into consideration the responses 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 variation became effective on 13 August 2019.

Appendix 1: Site Map



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