

July 2019

Trust in water

**Variation of Icosa Water Services
Limited's appointment as a sewerage
undertaker to include The Hill,
Littlebourne, Kent**

1. About this document

Variation of Icosa Water Services Limited's appointment as a sewerage undertaker to include The Hill, Littlebourne in Kent

On 20 June 2019, Ofwat began a [consultation on a proposal](#) to vary Icosa Water Services Limited's ("**Icosa Water**") appointment to become the sewerage services provider for a development in Southern Water Services Limited's ("**Southern Water**") sewerage services area called The Hill, Littlebourne, in Kent ("**the Site**").

The consultation ended on 18 July 2019. During the consultation period, we received two representations from the Consumer Council for Water, and the DWI which we considered in making our decision. On 19 July 2019, we granted Icosa Water a variation to its existing appointment to enable it to provide 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, Icosa Water Services Limited applied to replace Southern Water Services Limited as 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

Icosa Water Services Limited 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**”). Icosa Water will serve the Site by way of a bulk discharge agreement with Southern Water.

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.

Icosa Water has provided an independent report on the unserved status of the Site. According to the report there are two served properties within the Site (42 and 42A The Hill), but these properties are currently empty and will be demolished.

Further, the report states Southern Water has confirmed that it does not have knowledge of any public surface water assets within the development boundary other than assets serving 42 and 42A The Hill, mentioned above. The report concludes that the Site will be unserved in respect of public foul and surface water sewerage once demolition of 42 and 42A The Hill is completed.

On 19 June 2019, Icosa confirmed to us that the demolition of these two properties had taken place.

Given the information provided in the application, the independent report and the incumbent company, 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 proposes to match the charges of Southern Water to customers on the Site – i.e. – it will not offer a discount.

With regard to service levels, we have reviewed Icosa Water's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of Southern Water. 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 Southern Water.

3.4 Effect of appointment on Southern Water'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'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. 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 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 Southern Water'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, Leath Park Developments Limited said that it wanted Icosa Water 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 Drinking Water Inspectorate (DWI). We considered these responses before making the decision to vary Icosa Water's appointment. The points raised in the response are set out below.

4.1 CCWater

CCWater stated that it expects new appointees to provide consumers with prices, levels of service and service guarantees that match, or ideally, better those of the existing service provider. It stated that it is disappointed that there is no direct financial benefit to customers from having Icosa Water as their provider of sewerage services, rather than Southern Water. However, CCWater noted that in this case, Icosa Water meets or improves the majority of the service standards provided by Southern Water and for this reason it supports Ofwat's proposal.

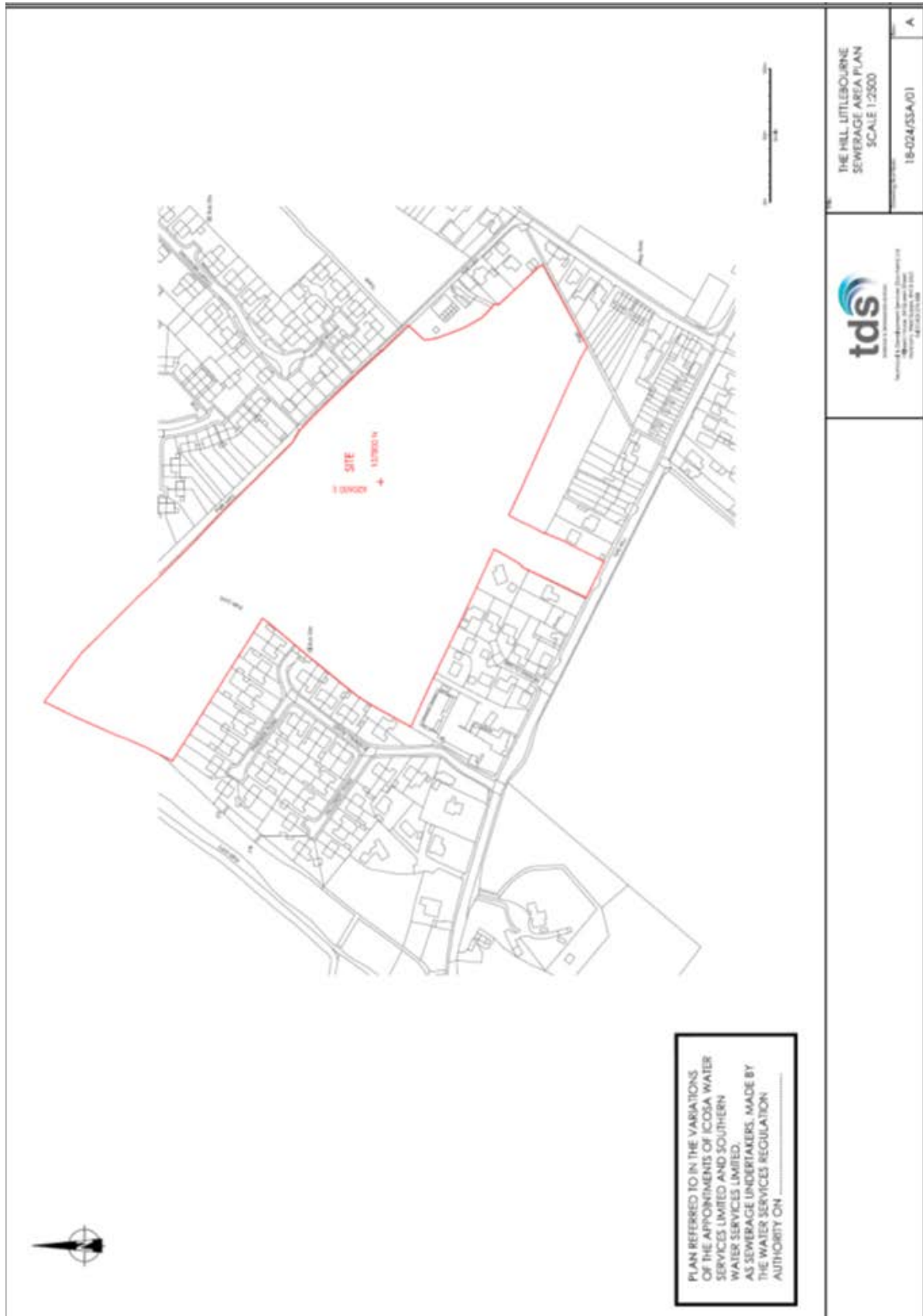
4.2 DWI

DWI confirmed that Icosa Water Services Limited is known to it and that it is content that it is competent and conversant with its obligations under the Water Supply (Water Quality) Regulations 2016 (as amended).

4 Conclusion

Having assessed Icosa Water's application, and having taken account of the responses 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 sewerage services. This appointment became effective on 20 July 2019.

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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