

October 2019

Trust in water

# **Variation of Icosa Water Services Limited's appointment to include Common Road, Sissinghurst in Kent**

## 1. About this document

### Variation of Icosa Water Services Limited's appointment to include Common Road, Sissinghurst

On 3 July 2019, Ofwat began a [consultation](#) on a proposal to vary Icosa Water Services Limited's ("**Icosa**") appointment to become the sewerage services provider for a development in Southern Water Services Limited's ("**Southern Water**") sewerage services area called Common Road, Sissinghurst ("**the Site**").

The consultation ended on 22 October 2019. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 28 October 2019, we granted Icosa 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 (“**NAV**”) mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of sewerage and/or water 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 applied to replace Southern Water 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 (“**NAV**”), 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 applied to be the sewerage services appointee for the Site under the consent criterion set out in section 7(4)(a) of the Water Industry Act 1991 (“**WIA91**”). Icosa will serve the Site by way of a bulk discharges agreement with Southern Water.

#### **3.1 The consent criterion**

To qualify under the consent criterion, an applicant must provide a letter of consent from the existing appointee consenting to the application and specifically to the variation of its area of appointment corresponding to the applicant's application.

Icosa has engaged with Southern Water on the Site. It has obtained written consent to become the wholesale provider for sewerage services on the Site. We were provided with a copy of this consent on 13 September 2019.

On the basis of the communication from Southern Water to Icosa, we are satisfied that the application meets the consent criterion.

#### **3.2 Financial viability of the proposal**

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed water or sewerage company.

We have considered the revenues and costs of the Site relating to the provision of sewerage services should the relevant variation be granted. In this case, we assessed the financial viability of the application on a portfolio basis with four other applications (Barty Farm, Benhall Mill Road, Rochester Riverside and West End Lane) all of which have already been granted. We considered that the five sites together are likely to be financially viable.

On this basis, our view is that the risk of this portfolio of sites not being financially viable is small and as a result we are currently satisfied that Icosa Water would be able to finance the proper carrying out of its functions if the variation is granted.

#### **3.3 Assessment of ‘no worse off’**

Icosa will offer charges equivalent to those of Southern Water – i.e. it will not offer a discount.

With regard to service levels, we have reviewed Icosa'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 and that overall customers will be 'no worse off' being served by Icosa 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.

In this case, we have calculated that if we grant the Site to Icosa, no increase to the sewerage bills of existing SRN customers.

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 Limited) said that it wanted Icosa 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 the Environment Agency. We considered these responses before making the decision to vary Icosa's 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 Icosa instead of Southern Water. CCWater expressed support for our proposal to grant this variation of appointment to Southern Water as it meets or improves upon many of the service standards offered by Southern Water. CCWater highlighted that it expects Icosa to review its services as its customer base grows, especially in relation to any provisions for customers in debt or financial hardship.

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

#### **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 Icosa in its proposal to match or improve upon the levels of service and match the pricing set by Southern. We do not require applicants to better the service and price of the previous incumbent.

### **4.2 The Environment Agency**

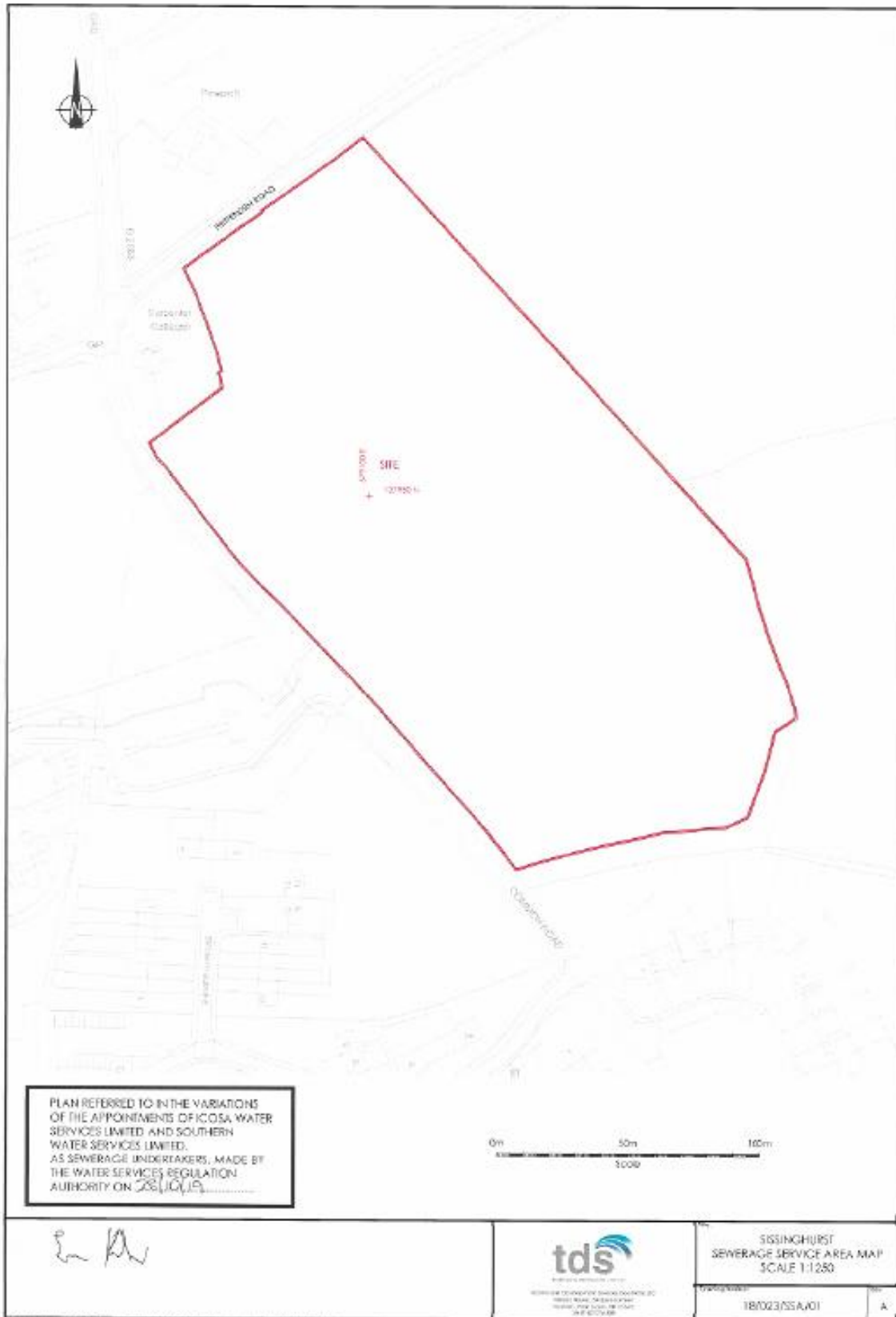
The Environment Agency responded to our consultation to advise that it has no further comments or objections.



## **5. Conclusion**

Having assessed Icosa's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Icosa's area of appointment to allow it to serve the Site for sewerage services. This appointment became effective on 29 October 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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October 2019

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