

October 2019

Trust in water

Variation of Icosa Water Services Limited's appointment to include Norwich Road

1. About this document

Variation of Icosa Water Services Limited's appointment to include Norwich Road

On 26 July 2018, Ofwat began a [consultation](#) on a proposal to vary Icosa Water Services Limited's appointment to become the water and sewerage services provider for a development called Norwich Road in Thetford, Kingsfleet ("**the Site**"). The Site is in Anglian Water Services Limited's water supply area and sewerage services area.

The consultation ended on 23 August 2018. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 15 August 2019, we granted a variation to Icosa Water Services Limited's existing appointment to enable it to supply water and 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 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 Anglian Water Services Limited 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 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 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 Services Limited will serve the Site by way of bulk supply and discharge agreement with Anglian Water Services Limited.

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 Services Limited has applied under the unserved criterion which is set out in section 7(4)(b) of the WIA91. Icosa Water Services Limited provided an independent report which confirms the Site is unserved. The report states that the land is greenfield, and is owned and being developed by the Developer who supports Icosa Water Services Limited's variation application. Anglian Water Services Limited have also provided confirmation that it agrees 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 Services Limited 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 Services Limited will charge customers based on Anglian Water Services Limited's existing water and wastewater household tariffs. Icosa Water Services Limited is not offering a discount on these tariffs.

Icosa Water Services Limited will offer the WaterSure¹ tariff to qualifying customers, ensuring such customers will be no worse off from being supplied by Icosa Water Services Limited rather than Anglian Water Services Limited.

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

3.4 Effect of appointment on Anglian Water Services Limited'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 Anglian Water Services Limited'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 Anglian Water Services Limited. 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 Anglian Water Services Limited might have expected to receive in revenue from serving the Site directly, were it to serve the Site, with the revenues it might expect from the proposed arrangement with Icosa Water Services Limited.

In this case, we have calculated that if we grant the site to Icosa Water Services Limited, there may be a potential impact on the bills of Anglian Water Services Limited's existing customers of a £0.001 increase on the water bills, and a £0.002 increase on the sewerage.

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

¹The WaterSure scheme allows households on meters who receive certain means tested benefits or tax credits, and who are either responsible for three or more children under the age of 19, or have a medical condition which requires significant additional use of water, to pay no more than the average household bill for its region.

Services Limited 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 developer Hopkins Homes Limited said that it wanted Icosa Water Services Limited to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received two responses to our consultation; from the Consumer Council for Water and the Environment Agency. We considered these responses before making the decision to vary Icosa Water Services Limited's appointment. The points raised in the response are set out below.

4.1 Consumer Council for Water

The Consumer Council for Water expressed its disappointment that Icosa Water Services Limited were offering no direct financial benefit to customers, however note that Icosa Water Services Limited generally matches or, in most cases, exceeds Anglian Water Services Limited's service standards, and for this reason supports the proposal to grant this variation.

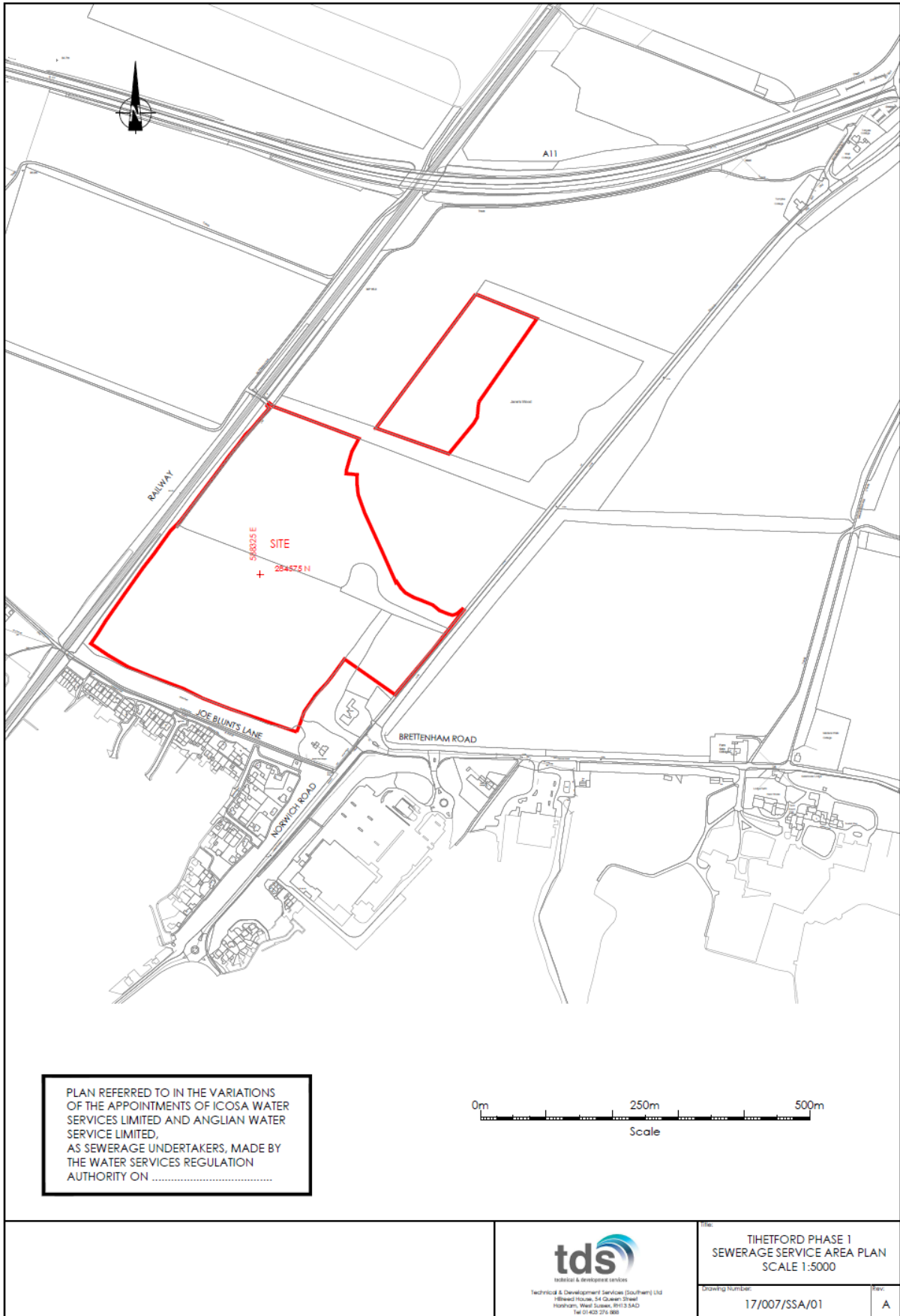
4.2 Environment Agency

The Environment Agency stated it had no objection to the consultation, however did query whether there would be any discharge of surface or groundwater. If so, Icosa would need the appropriate consent, for which it would also be required to apply for from the Environment Agency. Icosa followed this up with the Environment Agency, and following that the Environment Agency stated it had no objection to the variation being granted.

5. Conclusion

Having assessed Icosa Water Services Limited's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Icosa Water Services Limited's area of appointment to allow it to serve the site for water and sewerage services. This appointment became effective on 16 August 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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